Annual Report 2010

ZURICH®

Zurich Insurance Group

Zurich HelpPoint

About Zurich

Zurich is one of the world's largest insurance groups, and one of the few to operate on a truly global basis. Our mission is to help our customers understand and protect themselves from risk.

With over 60,000 employees serving customers in more than 170 countries, we aspire to become the best global insurer as measured by our shareholders, customers and employees.

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Operating and financial review

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

The information contained within the Operating and financial review is unaudited. The following table presents the summarized consolidated results of the Zurich Insurance Group for the years ended December 31, 2010 and 2009, 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 Annual Report 2010 for the Zurich Insurance Group and with its audited Consolidated financial statements as of December 31, 2010. Certain comparatives have been restated to reflect a change in accounting policy as set out in note 1 of the audited Consolidated financial statements.

Financial highlights

in USD millions, for the years ended December 31, unless otherwise stated	**2010**	2009[2]	Change[1]
Business operating profit	**4,997**	5,577	(10%)
Net income attributable to shareholders	**3,567**	3,733	(4%)
General Insurance gross written premiums and policy fees	**33,066**	34,157	(3%)
Global Life gross written premiums, policy fees and insurance deposits	**27,675**	26,029	6%
Farmers Management Services management fees and other related revenues	**2,778**	2,690	3%
Farmers Re gross written premiums and policy fees	**4,194**	6,615	(37%)
General Insurance business operating profit	**2,673**	3,474	(23%)
General Insurance combined ratio	**97.9%**	96.8%	(1.1 pts)
Global Life business operating profit	**1,467**	1,457	1%
Farmers business operating profit	**1,620**	1,491	9%
Farmers Management Services gross management result	**1,338**	1,291	4%
Farmers Management Services managed gross earned premium margin	**7.3%**	7.2%	0.1 pts
Group investments average invested assets[3]	**195,849**	187,289	5%
Group investments result, net	**8,289**	5,792	43%
Group investments return (as % of average invested assets)	**4.2%**	3.1%	1.1 pts
Total return on Group investments	**5.5%**	6.3%	(0.8 pts)
Shareholders' equity	**31,941**	26,969	18%

[1] Parentheses around numbers represent an adverse variance.
[2] Restated to reflect a change in accounting policy (see note 1 of the Consolidated financial statements).
[3] Excluding average cash received as collateral for securities lending of USD 246 million and USD 335 million in the years ended December 31, 2010 and 2009, respectively.

Performance overview for the year ended December 31, 2010

Zurich Insurance Group delivered full year results for the year ended December 31, 2010, that reflect its strong focus on profitability with robust underlying performances from all core businesses despite difficult underlying economic conditions in many of the markets in which the Zurich Insurance Group operates. Results were also impacted by a number of significant events during the year.

Insured event-related losses were more frequent compared with the relatively benign experience in 2009. The total incurred losses from such events including earthquakes, weather-related events as well as large losses from our commercial insurance business, exceeded the 2009 amount by over USD 600 million. The continuing low interest rate environment has also impacted the Zurich Insurance Group's business performance as lower investment yields from reinvested and new funds reduced investment income for the Zurich Insurance Group's businesses. Consequently, more focus has been put on pricing and margin strategy to compensate for these lower investment returns.

Improved equity markets and the high quality of the Zurich Insurance Group's bond portfolio have benefited the overall result. The Zurich Insurance Group has also recognized a total cost, including attorneys' fees, of USD 545 million for the settlement of a class action lawsuit in the U.S.

Disciplined asset liability management and the Zurich Insurance Group's risk management approach have resulted in a continued strong capital and solvency position with further improvements to both during the year. Shareholders' equity has increased by USD 5.0 billion to USD 31.9 billion.

Business operating profit decreased by USD 580 million to USD 5.0 billion or by 10 percent in U.S. dollar terms and 8 percent on a local currency basis.

- **General Insurance** business operating profit decreased by USD 801 million to USD 2.7 billion, or by 23 percent in U.S. dollar terms and 22 percent on a local currency basis. The ongoing focus on profitability continued to benefit the underlying underwriting result with an improved underlying loss ratio compared with 2009. This improvement was more than offset by lower levels of investment income, lower earned premiums, and the higher level of event-related losses such as large losses and weather related losses, including the Chilean earthquake and Australian floods.

- **Global Life** business operating profit increased marginally by USD 10 million to USD 1.5 billion, or by 1 percent in U.S. dollar terms and 2 percent on a local currency basis. Allowing for special operating items, which were lower than in 2009, underlying performance improved by 8 percent driven by increases in the expense and risk margins.

- **Farmers** business operating profit increased by USD 129 million to USD 1.6 billion, or by 9 percent. **Farmers Management Services** business operating profit increased by USD 36 million to USD 1.3 billion, or 3 percent, supported by the successful integration of 21st Century which was acquired in July 2009 by the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Zurich Financial Services Group. **Farmers Re** business operating profit increased by USD 93 million to USD 317 million, or 41 percent, reflecting favorable underwriting trends.

Other Operating Businesses business operating loss increased by USD 181 million to USD 918 million reflecting a normalized run-rate for Zurich Insurance Group financing costs, with 2009 having benefited from one-off gains associated with the buyback of subordinated debt.

Non-Core Businesses, comprising the Zurich Insurance Group's run-off businesses, reported a business operating profit of USD 155 million compared with a loss of USD 108 million in 2009. The losses in 2009 were principally driven by volatile financial markets, the impact of which has been mitigated in 2010 through the dynamic hedge strategy implemented in March 2010.

Operating and financial review *continued*

Total business volumes, comprising gross written premiums, policy fees, insurance deposits and management fees, decreased by USD 1.8 billion to USD 67.7 billion, or by 3 percent in U.S. dollar terms and 1 percent on a local currency basis. Volumes in the core operating segments developed as follows:

- **General Insurance** gross written premiums and policy fees decreased by USD 1.1 billion to USD 33.1 billion, or by 3 percent in both U.S. dollar terms and on a local currency basis. Average rate increases of 2 percentage points were achieved through continuing disciplined underwriting focused on profit margin. However, these positive actions did not fully compensate for competitive markets and weak economic conditions, with lower levels of new business activity and reduced insured customer exposures. Customer retention levels remain strong across the business.

- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 1.6 billion to USD 27.7 billion, or by 6 percent in U.S. dollar terms and 9 percent on a local currency basis. This increase was primarily driven by higher levels of new business, particularly in single premium products but also from continued focus on in-force management.

- **Farmers Management Services** management fees and other related revenue increased by USD 88 million to USD 2.8 billion, or by 3 percent, supported by an underlying increase of 2 percent in gross earned premiums by the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Zurich Financial Services Group. 21st Century generated an increase of USD 130 million in fees and revenue in the first full year after its acquisition. The 37 percent decrease to USD 4.2 billion in gross written premiums of **Farmers Re** reflects the changes in the All Lines quota share reinsurance treaty and consequent portfolio transfers.

Net income attributable to shareholders decreased by USD 165 million to USD 3.6 billion, or by 4 percent as a result of the lower business operating profit. Net investment gains were largely offset by the costs of the class action lawsuit settlement in the U.S. and by the effect of the restatement on the 2009 result as a consequence of the change of measurement to a fair value basis for a closed life insurance book in the U.S.

The **shareholders' effective tax rate** was 20.1 percent for the year ended December 31, 2010, compared with 23.2 percent for the year ended December 31, 2009, primarily due to a combination of favorable tax settlements and shifts in the geographic profit mix.

General Insurance

in USD millions, for the years ended December 31	2010	2009	Change
Gross written premiums and policy fees	33,066	34,157	(3%)
Net earned premiums and policy fees	27,837	29,071	(4%)
Insurance benefits and losses, net of reinsurance	(19,795)	(20,622)	4%
Net underwriting result	577	930	(38%)
Net investment income	2,867	3,080	(7%)
Net non-technical result (excl. items not included in BOP)	(796)	(650)	(22%)
Business operating profit	**2,673**	**3,474**	**(23%)**
Loss ratio	71.1%	70.9%	(0.2 pts)
Expense ratio	26.8%	25.9%	(0.9 pts)
Combined ratio	**97.9%**	**96.8%**	**(1.1 pts)**

in USD millions, for the years ended December 31	Business operating profit		Combined ratio	
	2010	2009	2010	2009
Global Corporate	741	787	95.8%	95.1%
North America Commercial	1,118	1,243	97.1%	96.9%
Europe General Insurance	816	1,130	97.5%	98.4%
International Markets	48	169	104.6%	96.9%
GI Global Functions including Group Reinsurance	(49)	144	nm	nm
Total	**2,673**	**3,474**	**97.9%**	**96.8%**

General Insurance delivered a set of results below those of 2009. Rate increases and targeted underwriting actions implemented in previous periods were visible in better underlying loss ratios. However, these improvements were more than offset by the extraordinary frequency of loss events, such as earthquakes, weather-related losses and higher levels of large losses, as well as lower investment yields and the overall impact of the recessionary environment which continued to negatively impact insured customer exposures and new business activity.

Business operating profit decreased by USD 801 million to USD 2.7 billion or by 23 percent in U.S. dollar terms and 22 percent on a local currency basis. The decrease was mainly attributable to the impact of USD 175 million from the earthquake in Chile (of which USD 110 million was recorded in Zurich Insurance Group Reinsurance) USD 100 million from the Australian floods in 2010, and other severe weather events, as well as an impairment relating to the value of the Zurich Insurance Group's Russian business reflected in the non-technical result. Additionally, investment income declined mainly due to lower yields, but also due to a lower asset base after the repatriation of capital to the Zurich Insurance Group. Rate increases achieved in prior periods now earning into the underwriting result compensated for lower investment returns.

Gross written premiums and policy fees decreased by USD 1.1 billion to USD 33.1 billion or 3 percent in both U.S. dollar terms and on a local currency basis. In line with the strategy to maintain margins, average rate increases of 2 percentage points were achieved, with increased rates in European markets while the Zurich Insurance Group's North American rates remained broadly flat in a market environment of reduced rates. The depressed levels of economic activity have reduced many insured customer exposures and lower levels of new business activity have also been evident in European and North American markets. Despite this, premium growth has been achieved in International Markets, as well as in certain commercial units in North America and specific market segments in Europe. In the North American market, where insured customer exposures are lower than in the prior year, competitors have aggressively defended their portfolios and the market continued to experience rate decreases. However, North American new business and customer retention levels continued to develop favorably. European volumes continue to be under pressure because of higher unemployment and other recessionary impacts. In the personal lines motor business, underwriting actions implemented to restore margins have impacted new business and retention levels negatively.

Operating and financial review *continued*

The **net underwriting result** decreased by USD 352 million to USD 577 million, or by 38 percent. The combined ratio was 97.9 percent, a deterioration of 1.1 percentage points compared with 2009. The loss ratio was impacted by the earthquakes in Chile and New Zealand, the floods in Australia and Tennessee, and the higher occurrence of severe weather in North America and Europe compared with an average experience in 2009. In addition, higher levels of large losses were experienced when compared with 2009. The loss ratio benefited from higher favorable development of reserves established in prior years as well as from a lower underlying loss ratio with increases in rates and targeted underwriting actions now improving the result. The expense ratio developed unfavorably by 0.9 percentage points to 26.8 percent driven largely by the reduction in net earned premiums resulting from lower business volumes, return premiums and reinsurance reinstatement premiums.

Global Life

in USD millions, for the years ended December 31	2010	2009	Change
Insurance deposits	15,382	13,589	13%
Gross written premiums and policy fees	12,292	12,440	(1%)
Net investment income on Group investments	3,892	4,081	(5%)
Insurance benefits and losses, net of reinsurance	(10,140)	(10,594)	4%
Underwriting and policy acquisition costs, net of reinsurance[1]	(1,503)	(1,145)	(31%)
Administrative and other operating expenses	(2,217)	(2,207)	–
Business operating profit	**1,467**	**1,457**	**1%**
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts	187,196	180,145	4%
Assets under management[2]	222,333	213,948	4%
Net policyholder flows[3]	5,520	5,434	2%

[1] Excluding non-recurring items in the U.S. and UK in 2009, underwriting and policy acquisition costs, net of reinsurance, remained flat at USD 1.5 billion.
[2] 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, on which the Zurich Insurance Group earns fees. For details of prior year restatements, see note 1 of the audited Consolidated financial statements.
[3] Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits and reinsurance.

Underlying **business operating profit,** after adjusting for special operating items, increased 8 percent driven by improvements in the expense and risk margins. The expense margin benefited from increased fee income due to the recovery in financial markets, especially in the UK and continued focus on expense control. The risk margin improved as a result of continued increase in value from protection lines of business. Special operating items in the year were lower than in the prior year, resulting in reported business operating profit increased marginally by USD 10 million to USD 1.5 billion, or by 1 percent in U.S. dollar terms and 2 percent on a local currency basis. Special operating items in the prior year included in particular a reduction in the amortization of deferred acquisition costs in the U.S. business, which substantially reduced underwriting and policy acquisition costs in 2009.

Insurance deposits increased by USD 1.8 billion to USD 15.4 billion or by 13 percent in U.S. dollar terms and 17 percent on a local currency basis, primarily driven by growth in the UK, Ireland and Germany.

Gross written premiums and policy fees decreased by USD 148 million to USD 12.3 billion or by 1 percent in U.S. dollar terms but increased by 1 percent on a local currency basis. The increase on a local currency basis was primarily due to increases in Germany, the UK and Latin America, partly offset by a reduction in sales of short-term saving products in Spain.

Net reserves increased by USD 7.0 billion to USD 187.2 billion or by 4 percent in U.S. dollar terms and 7 percent on a local currency basis. The net reserves increased due to increased net policyholder flows and the recovery of financial markets. **Assets under management** increased by 4 percent in U.S. dollar terms and by 6 percent on a local currency basis, compared with December 31, 2009. **Net policyholder flows** increased by USD 86 million to USD 5.5 billion in U.S. dollar terms driven by new business flows.

Operating and financial review *continued*

Farmers

Farmers business operating profit was USD 1.6 billion, compared with USD 1.5 billion for 2009. Farmers Management Services contributed USD 1.3 billion and Farmers Re contributed USD 317 million.

Farmers Management Services

in USD millions, for the years ended December 31	2010	2009	Change
Management fees and other related revenues	2,778	2,690	3%
Management and other related expenses	(1,440)	(1,399)	(3%)
Gross management result	1,338	1,291	4%
Other net income (net of non-controlling interests)	(35)	(24)	5%
Business operating profit	**1,304**	**1,268**	**3%**
Managed gross earned premium margin	7.3%	7.2%	0.1 pts

Business operating profit increased by USD 36 million to USD 1.3 billion, or by 3 percent, driven by an increase of USD 75 million in the contribution from 21st Century reflecting a full year's contribution in 2010 compared with six months in 2009, and partly offset by lower core revenues as well as lower investment income.

Management fees and other related revenues increased by USD 88 million to USD 2.8 billion or by 3 percent driven by a 2 percent increase in gross earned premiums in the Farmers Exchanges. 21st Century generated an increase of USD 130 million in fees and revenue in the first full year after its acquisition. This contribution was partly offset by a reduction in management fees from the auto line of business, reflecting the continuing economic pressures in the U.S.

Management and other related expenses increased by USD 41 million to USD 1.4 billion or by 3 percent driven by an increase of USD 63 million related to the full year costs from 21st Century. The underlying expenses of the remaining business were lower compared with 2009 reflecting continued strict expense discipline and the benefits of ongoing operational transformation. Overall, the gross management result improved by USD 47 million to USD 1.3 billion, or by 4 percent, while the **managed gross earned premium margin** improved by 0.1 points to 7.3 percent.

Farmers Re

in USD millions, for the years ended December 31	2010	2009	Change
Gross written premiums and policy fees	4,194	6,615	(37%)
Net underwriting result	134	58	nm
Business operating profit	**317**	**224**	**41%**
Loss ratio	66.5%	68.2%	1.7 pts
Expense ratio	31.1%	30.8%	(0.3 pts)
Combined ratio	**97.6%**	**99.0%**	**1.4 pts**

Business operating profit increased by USD 93 million to USD 317 million, or by 41 percent. This result was driven by favorable loss trends. On June 30, 2010, the All Lines quota share participation with the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Zurich Financial Services Group, reduced from 35 percent to 25 percent and further reduced to 12 percent on December 31, 2010. In 2009, participation changed in various steps from 25 percent to 37.5 percent during the year. As a result of these changes in participation and the consequent portfolio transfers, **gross written premiums and policy fees** decreased by USD 2.4 billion to USD 4.2 billion or by 37 percent compared with 2009.

The loss ratio improved 1.7 percentage points as a result of favorable underwriting trends, particularly in the auto and homeowner lines of business, compared with 2009. The higher expense ratio resulted from an increase in the ceding commission on the All Lines quota share reinsurance treaty, reflecting changes to the underlying business mix in the Farmers Exchanges.

Farmers Exchanges

in USD millions, for the years ended December 31	2010	2009	Change
Gross written premiums	18,131	17,620	3%
Gross earned premiums	18,311	17,885	2%

Gross earned premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Zurich Financial Services Group, increased by USD 426 million to USD 18.3 billion or by 2 percent driven by the 21st Century acquisition in July 2009, partly offset by lower gross earned premiums in the other lines of business.

Operating and financial review *continued*

Other Operating Businesses

in USD millions, for the years ended December 31	2010	2009	Change
Business operating profit:			
Holding and financing	(755)	(563)	(34%)
Headquarters	(138)	(141)	2%
Alternative investments	(25)	(32)	24%
Total business operating profit	**(918)**	**(737)**	**(25%)**

Holding and financing increased its business operating loss by USD 192 million to USD 755 million, or by 34 percent. This reflects a normalized run-rate for Zurich Insurance Group financing costs with 2009 including USD 210 million of one-off gains associated with the buy back of subordinated debt, and a favorable impact from movements in foreign currencies. This was partly offset by an improvement in net financing costs in 2010 due to increased repatriation of capital from the units. **Headquarters** business operating loss decreased slightly to USD 138 million, primarily due to a reduction in pension liabilities as a consequence of the outsourcing of an IT data center, which was partly offset by an increase in one-off expenses related to the review of the management structure.

Non-Core Businesses

in USD millions, for the years ended December 31	2010	2009	Change
Business operating profit:			
Centre	39	160	(76%)
Centrally managed businesses	118	(279)	nm
Other run-off	(2)	10	nm
Total business operating profit	**155**	**(108)**	**nm**

Centre business operating profit decreased by USD 121 million to a profit of USD 39 million, mainly driven by a lower positive impact of financial markets on an insurance portfolio where both assets and liabilities are carried at fair value, and from reserve increases. **Centrally managed businesses,** which comprise portfolios that are managed with the intention to achieve a profitable run-off over time, improved by USD 397 million to a profit of USD 118 million, primarily driven by the lower impact of reserve increases as a consequence of the implementation of a dynamic hedge strategy in March 2010. As set out in note 1 of the audited Consolidated financial statements, there has been a change in accounting policy for a closed book of variable annuity products in the U.S. Along with the implementation of the dynamic hedge strategy, this has reduced future volatility and the economic exposure associated with this block of business. Additionally, the loss in the prior year reflected an increase of certain life insurance reserves addressing policyholders' behavior.

Investment performance

Performance of Group investments

in USD millions, for the years ended December 31	2010	2009	Change
Net investment income	7,021	7,443	(6%)
Net capital gains/(losses) on investments and impairments	1,268	(1,651)	nm
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	650	(1,603)	nm
Net investment result	8,289	5,792	43%
Net investment return on Group investments	**4.2%**	**3.1%**	**1.1 pts**
Movements in net unrealized gains/(losses) on investments included in total equity	2,524	6,057	(58%)
Total investment result, net of investment expenses[1]	**10,813**	**11,849**	**(9%)**
Average group investments[2]	195,849	187,289	5%
Total return on Group investments	**5.5%**	**6.3%**	**(0.8 pts)**

[1] After deducting investment expenses of USD 226 million and USD 243 million for the for the years ended December 31, 2010 and 2009, respectively.
[2] Excluding average cash received as collateral for securities lending of USD 246 million and USD 335 million for the years ended December 31, 2010 and 2009, respectively.

Total return, net of investment expenses, on average Zurich Insurance Group investments was positive 5.5 percent. Debt securities, which are invested to match the insurance liability profiles, returned 5.2 percent. Equity securities returned 18.1 percent, as equity markets recovered to the highest level since September 2008 and other investments, mostly real estate and mortgages, returned 3.3 percent.

Total **net investment income** decreased by USD 422 million to USD 7.0 billion, or by 6 percent in U.S. dollar terms and 5 percent on a local currency basis. Net investment income yield was 3.6 percent, a decrease of 39 basis points compared with the prior year. This decrease was driven by cash balances yielding lower returns and lower income returns from investing cash flows into debt securities at lower yields.

Total **net capital gains on investments and impairments** were USD 1.3 billion, compared with losses of USD 1.7 billion in the prior year. The net capital gains comprised USD 1.5 billion of gains realized from active management, USD 377 million of gains from asset revaluations and USD 649 million of impairments. Impairments consisted of USD 497 million attributable to equity securities, USD 55 million to mortgages and other investments and USD 97 million to debt securities.

Net unrealized gains included in total equity increased by USD 2.5 billion since December 31, 2009, due to a USD 1.8 billion increase in net unrealized gains on equity securities, principally as a result of a revaluation of the investment in New China Life Insurance Co., Ltd. and also as a consequence of global equity market improvements, and due to a USD 744 million increase in the value of debt securities and others, mainly due to the fall in interest rates.

Performance of unit-linked investments

in USD millions, for the years ended December 31	2010	2009	Change
Net investment income	1,561	1,638	(5%)
Net capital (losses)/gains on investments and impairments	8,533	10,837	(21%)
Net investment result, net of investment expenses[1]	10,093	12,475	(19%)
Average investments	103,557	88,685	17%
Total return on unit-linked investments	**9.7%**	**14.1%**	**(4.3 pts)**

[1] After deducting investment expenses of USD 532 million and USD 524 million for the for the years ended December 31, 2010 and 2009, respectively.

Total return on unit-linked investments was 9.7 percent compared with 14.1 percent in 2009. The reduction in the total return was due to net capital gains of USD 8.5 billion compared with net capital gains of USD 10.8 billion in 2009 as continuing improvement in financial markets slowed compared with 2009. Net investment income decreased by USD 77 million or 5 percent, primarily due to lower bond yields and a decrease in dividend income from common equity stocks.

Operating and financial review *continued*

Balance sheet highlights

in USD millions, as of December 31	2010	2009	Change
Group investments	196,846	195,344	1%
Investments for unit-linked products	107,947	99,167	9%
Total investments	304,794	294,510	3%
Net reserves for losses and loss adjustment expenses	55,976	55,903	–
Net reserves for unearned premiums	13,868	15,676	(12%)
Net other reserves for insurance contracts, including unit-linked insurance products	153,861	151,676	1%
Net reserves for insurance contracts[1]	223,704	223,255	–
Liabilities for investment contracts (primarily unit-linked)	50,667	46,124	12%
Total operational debt	4,938	6,126	(19%)
Total financial debt	13,069	14,949	(13%)
Total equity	33,512	29,014	16%
Total debt and equity	51,519	50,089	3%

[1] Gross of allowance for uncollectible amounts of USD 132 million and USD 88 million as of December 31, 2010, and 2009, respectively.

Zurich Insurance Group investments increased by USD 1.5 billion since December 31, 2009. In local currency terms, total Zurich Insurance Group investments increased by USD 2.5 billion reflecting positive market developments and investment of new cash flows. For details of prior year restatements, see note 1 of the audited Consolidated financial statements. The quality of the investment portfolio remains high. The investment strategy remains disciplined and the Zurich Insurance Group continues to selectively reduce risks which it believes to be unacceptable, where the risks are not adequately compensated, or which incur disproportionately high regulatory capital charges.

Investments for unit-linked products increased by USD 8.8 billion to USD 107.9 billion, or by 9 percent since December 31, 2009. On a local currency basis, unit-linked investments increased by USD 12.8 billion, or 13 percent, driven by positive cash flows and performance of financial markets in 2010. This increase is mirrored in higher unit-linked insurance and investment contract liabilities.

Net reserves for insurance contracts remained flat at 223.7 billion compared with 223.3 billion in 2009, but increased by 2 percent on a local currency basis. Net reserves for losses and loss adjustment expenses remained flat, both in U.S. dollar terms and on a local currency basis. Net reserves for unearned premiums decreased by 10 percent on a local currency basis. Net other reserves for insurance contracts, including unit-linked insurance products increased by 4 percent on a local currency basis due to increased net policyholder flows and the recovery of financial markets.

Liabilities for investment contracts increased by 12 percent, and by 16 percent on a local currency basis, compared with December 31, 2009. The increase in local currency was driven by positive net policyholder flows, primarily driven by higher levels of new business in single premium products in the UK and the European hub in Ireland, and the positive performance of unit-linked funds in 2010.

Total debt and equity increased by 3 percent. Total operational debt decreased by USD 1.2 billion or 19 percent in U.S. dollar terms. The main drivers were a decrease of USD 646 million in obligations to repurchase securities, a decrease of USD 359 million in collateralized loans and a reduction from the repayment of USD 200 million debt drawn under a credit facility for the sole purpose of financing surplus notes issued by the Leschi Life Assurance Company (Leschi), which expired in June 2010. Total financial debt decreased by USD 1.9 billion to USD 13.1 billion or by 13 percent in U.S. dollar terms. The decrease was mainly due to the early partial repayment in September 2010 by Zurich Insurance Company Ltd of CHF 2.3 billion of the outstanding CHF 4.0 billion subordinated loan from Zurich Financial Services Ltd in order to fund the payment of the dividend to the shareholders of Zurich Financial Services Ltd. This decrease was partially offset by the net effects of the additional issuance of USD 375 million of commercial paper by Zurich Capital Markets and the translation effects of the depreciation of the U.S. dollar against the Swiss Franc. Details of debt issuances are set out in note 22 of the audited Consolidated financial statements.

Currency translation impact

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

As the Zurich Insurance Group has chosen the U.S. dollar as its presentation currency, differences arise when functional currencies are translated into the presentation currency. 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, 2010	in USD millions	in %
Gross written premiums and policy fees	(430)	(1%)
Insurance benefits and losses, gross of reinsurance	324	1%
Net income attributable to shareholders	(56)	(2%)
Business operating profit	(83)	(2%)

The income statements are translated at average exchange rates. Throughout 2010, the U.S. dollar has on average been stronger against the euro and the British pound, but has been weaker against the Swiss franc compared with 2009. 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, 2009, as of December 31, 2010	in USD millions	in %
Total investments	(5,531)	(2%)
Reserves for insurance contracts, gross	(4,134)	(2%)
Cumulative translation adjustment in shareholders' equity	(1,076)	(6%)

The balance sheets are translated at end-of-period rates. The U.S. dollar has strengthened against the euro and British pound, but has significantly weakened against the Swiss franc as of December 31, 2010, compared with December 31, 2009, resulting in a decrease in U.S. dollar terms in most balance sheet line items.

Risk review

Risk management

The Risk Review is an integral part of the Consolidated financial statements.

Risks are managed at the Zurich Financial Services Group, region, business division and business unit level according to our risk management framework. The principles of the Zurich Financial Services Group's Enterprise Risk Management described thereafter are equally applicable to the Zurich Insurance Group (Zurich Insurance Company Ltd (ZIC) and its subsidiaries (collectively the "Zurich Insurance Group")). The figures presented are prepared on a Zurich Insurance Group-basis.

Mission and objectives of risk management

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

The Zurich Financial Services Group's major risk management objectives are to:

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

Risk management framework

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

At the heart of the risk management framework is a governance process with clear responsibilities for taking, managing, monitoring and reporting risks. The Zurich Financial Services Group articulates the roles and responsibilities for risk management throughout the organization, from the Board of Directors and the Chief Executive Officer to its businesses and functional areas, thus embedding risk management in the business (see the 'Risk Governance and Risk Management Organization' section in the Risk Review).

To support the governance process, the Zurich Financial Services Group relies on documented policies and guidelines. The Zurich Risk Policy is the Zurich Financial Services 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 Zurich Financial Services Group's willingness and ability to take risk, considering earnings stability, economic capital adequacy, financial flexibility and liquidity, franchise value and reputation, the Zurich Financial Services Group's strategic direction and operational plan, and a reasonable balance between risk and return, aligned with economic and financial objectives. The Zurich Financial Services Group regularly enhances the Zurich Risk Policy to reflect new insights and changes in the Zurich Financial Services Group's environment and to reflect changes to the Zurich Financial Services Group's risk tolerance. In 2010, the Zurich Risk Policy was updated and strengthened for various areas, including liquidity risk, remuneration, information risk and country risk. Related procedures and risk controls were strengthened or clarified for these areas.

One of the key elements of the Zurich Financial Services Group's risk management framework is to foster risk transparency by establishing risk reporting standards throughout the Zurich Financial Services Group. The Zurich Financial Services Group regularly reports on its risk profile, current risk issues, adherence to its risk policies and improvement actions both at a local and on a Zurich Financial Services Group level. The Zurich Financial Services Group has 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 the Zurich Financial Services Group's business but is also aligned with the Zurich Financial Services Group's strategic and operational planning process. The Zurich Financial Services Group assesses risks systematically and from a strategic perspective through its proprietary Total Risk Profiling™ (TRP) process, which allows the Zurich Financial Services Group to identify and then evaluate the probability of a risk scenario occurring, as well as the severity of the consequences should it occur. The Zurich Financial Services Group then develops, implements and monitors appropriate improvement actions. The TRP process is integral to how the Zurich Financial Services Group deals with change, and is particularly suited for evaluating strategic risks as well as risks to its reputation. At Zurich Financial Services Group level this process is performed annually, reviewed regularly and closely tied to the planning process.

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

An important element of the Zurich Financial Services Group's risk management framework is a well-balanced and effectively managed remuneration program. This includes a Zurich Financial Services Group-wide remuneration philosophy, robust short- and long-term incentive plans, strong governance and links to the business planning, performance management and risk policies of the Zurich Financial Services Group. Based on the Zurich Financial Services Group's Remuneration Rules, the Board establishes the structure and design of the remuneration arrangements so that they do not encourage inappropriate risk taking.

Through these processes, responsibilities and policies, the Zurich Financial Services Group embeds a culture of disciplined risk taking across the Zurich Financial Services Group. The Zurich Financial Services Group continues to consciously take risks for which it expects 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, place emphasis on the importance of sound risk management in the insurance industry.

New 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 interested in risk management as a factor in evaluating companies. Standard & Poor's, a rating agency with a separate rating for Enterprise Risk Management, has rated the Zurich Financial Services Group overall Enterprise Risk Management as "strong." Reinsurance risk, credit risk and asset/liability management and market risk controls remain "excellent." Reserving risk, catastrophe risk and operational risk controls, as well as strategic and emerging risk management, remain "strong." The Zurich Financial Services Group is rated either "excellent" or "strong" in all of Standard & Poor's dimensions for Enterprise Risk Management.

The Zurich Financial Services Group also seeks external expertise from its International Advisory Council, Natural Catastrophe Advisory Council and Climate Change Advisory Council to better understand and assess risks, particularly regarding areas of complex change. 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.

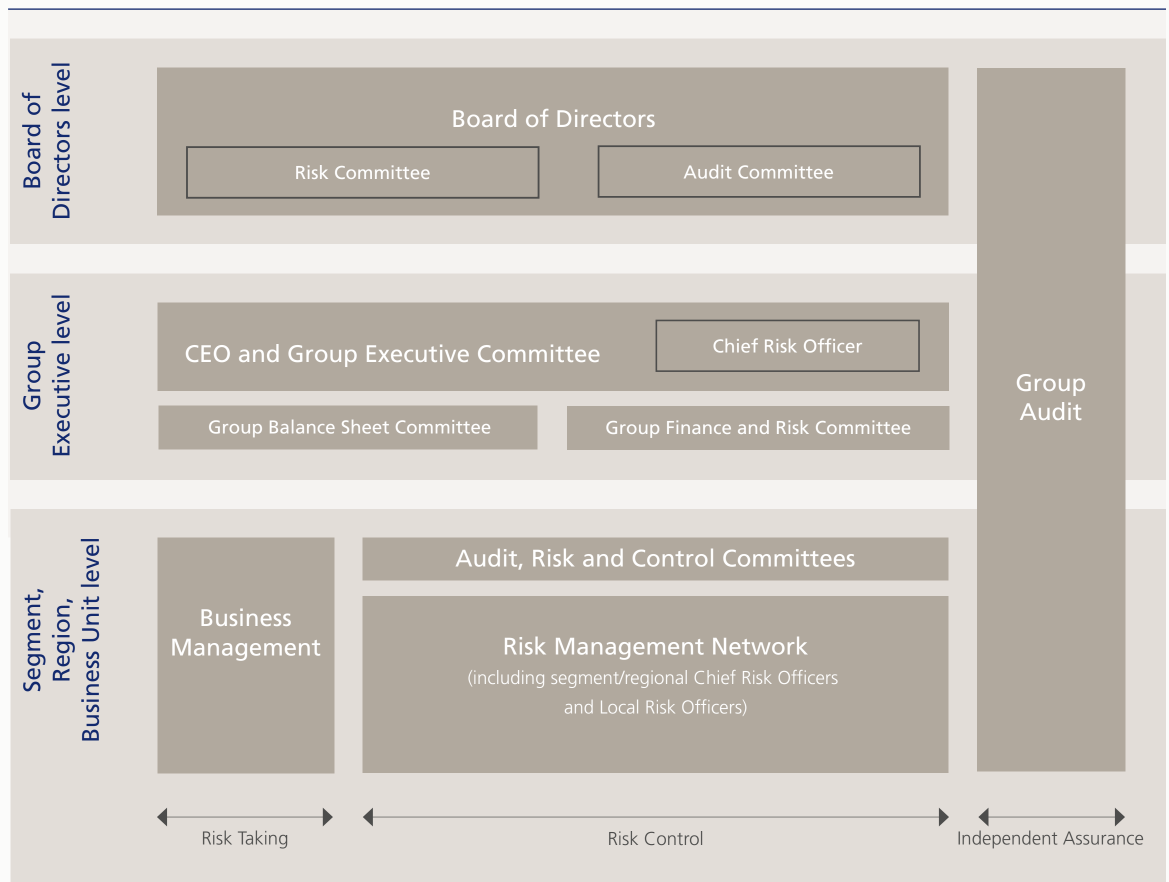
The Zurich Financial Services Group is also involved in a number of international industry organizations engaged in advancing the regulatory dialogue pertaining to insurance and financial services. In 2010, Zurich Financial Services Group senior executives contributed to the drafting of key papers issued by the CRO Forum (an organization composed of the chief risk officers of major insurance companies and financial conglomerates that focuses on developing and promoting industry best practices in risk management). In 2010, the Zurich Financial Services Group's Chief Risk Officer served as vice-chair of the CRO Forum, and in 2011 serves as chair. In addition, the Zurich Financial Services Group's Chief Financial Officer continues to serve as 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, as well as establishing the principles for Embedded Value reporting). The Zurich Financial Services Group 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 review *continued*

Risk governance and risk management organization

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

Risk governance overview



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

Zurich Financial Services Group Board of Directors level

The Board of Directors of Zurich Financial Services Group has ultimate oversight responsibility for the Zurich Financial Services Group's risk management. It establishes the guidelines for the Zurich Financial Services 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 Zurich Financial Services Group's risk management, in particular the Zurich Financial Services Group's risk tolerance, including agreed limits that the Board regards as acceptable for the Zurich Financial Services Group to bear, the aggregation of these limits across the Zurich Financial Services Group, the measurement of adherence to risk limits, and the Zurich Financial Services Group's risk tolerance in relation to anticipated capital levels. The Risk Committee further oversees the Zurich Financial Services 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 Zurich Financial Services Group's adherence to risk limits. The Risk Committee further reviews, with business management and the Zurich Financial Services Group Risk Management function, the Zurich Financial Services Group's general policies and procedures and satisfies itself that effective

systems of risk management are established and maintained. It receives periodic reports from Zurich Financial Services 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 Zurich Financial Services 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 2010.

Zurich Financial Services Group executive level

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

The Zurich Financial Services Group Chief Risk Officer is a member of the Zurich Financial Services 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 for mitigation of risks identified in these committees.

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

- Zurich Financial Services 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 Zurich Financial Services Group and its subsidiaries. The GBSC is charged with setting the annual capital and balance sheet plans for the Zurich Financial Services Group based on the Zurich Financial Services Group's strategy and financial plans, as well as recommending specific transactions or unplanned business changes to the Zurich Financial Services Group's balance sheet. The GBSC has oversight of all main levers of the balance sheet. It assesses the Zurich Financial Services Group's capital adequacy, reinsurance, level of return, and desired growth. The GBSC reviews and recommends the Zurich Financial Services Group's overall risk tolerance. It is chaired by the CEO.
- Zurich Financial Services 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 Zurich Financial Services Group. The GFRC oversees financial implications of business decisions and the effective management of the Zurich Financial Services 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 Zurich Financial Services Group Risk Management on the risk profile of the Zurich Financial Services Group. It reviews and formulates recommendations for future courses of action with respect to potential merger and acquisition (M&A) transactions, changes to the Zurich Risk Policy, internal insurance programs for the Zurich Financial Services Group, material changes to the Zurich Financial Services Group's risk-based capital methodology and the overall risk tolerance. The GFRC is chaired by the Zurich Financial Services Group Chief Financial Officer, while the Zurich Financial Services 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 Zurich Financial Services Group's asset/liability exposure and investment strategies and is chaired by the Zurich Financial Services 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 Chief Underwriting Officer General Insurance.
- Zurich Financial Services Group Reinsurance Committee (GRC) – oversees the purchase of reinsurance on a global basis. This committee also oversees the Zurich Financial Services Group´s natural catastrophe exposure and is chaired by the Global Head of Zurich Financial Services Group Reinsurance.

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

Zurich Financial Services Group Risk Management organization

The Zurich Financial Services Group Chief Risk Officer leads the Zurich Financial Services Group Risk Management function, which develops methods and processes for identifying, measuring, managing, reporting and monitoring risks throughout the Zurich Financial Services

Risk review *continued*

Group. Zurich Financial Services Group Risk Management proposes changes to the risk management framework and the Zurich Financial Services Group's risk policies; it makes recommendations on the Zurich Financial Services Group's risk tolerance and assesses the risk profile. The Zurich Financial Services Group Chief Risk Officer is responsible for the oversight of risks across the Zurich Financial Services Group; he regularly reports risk matters to the Chief Executive Officer, senior management committees and the Risk Committee of the Board.

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

At Zurich Financial Services Group level 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 Zurich Financial Services Group's center of excellence for risk quantification and modeling. The risk operations department comprises operational risk management and the Internal Control Framework. It serves as the link between the risk management network (segments, regions, business units and functions) and risk management at Zurich Financial Services Group level. At the end of 2010, the risk management organization was realigned with the new Zurich Financial Services Group structure. Information risk management and Business Continuity Management and Disaster Recovery were reassigned to the risk management function within the newly formed Zurich Financial Services Group Operations segment. Chief Risk Officers were appointed for the Zurich Financial Services Group Operations, General Insurance and Global Life segments.

The risk management network consists of the Chief Risk Officers (CROs) of the Zurich Financial Services Group's segments and regions, 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 risk officers are part of the respective business' management teams and therefore are embedded in the business. The LROs also report to the segment and regional CROs, the latter also to the Zurich Financial Services Group's Chief Risk Officer. The CROs of the Zurich Financial Services Group's segments and regions are members of the executive leadership team of the Zurich Financial Services Group's Chief Risk Officer.

In addition to the risk management network, the Zurich Financial Services 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 Financial Services Group's integrated assurance approach with other assurance, governance and control, technical and business functions to provide a holistic view of risks.

Analysis by risk type

Risk type description

In order to enable a consistent, systematic and disciplined approach to risk management, the Zurich Financial Services Group categorizes its 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 Zurich Financial Services 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 Zurich Financial Services 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 Zurich Financial Services Group and external events
- Reputation – risk that an act or omission by the Zurich Financial Services Group or any of its employees could result in damage to the Zurich Financial Services Group's reputation or loss of trust among its 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 Zurich Financial Services 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 Zurich Financial Services Group assesses the implications of strategic decisions on risk-based return measures 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 Zurich Financial Services Group works on reducing the unintended risks of strategic business decisions through its risk assessment processes and tools, including the Total Risk Profiling™ process. The Zurich Financial Services Group Executive Committee regularly assesses key strategic risk scenarios for the Zurich Financial Services Group as a whole, including scenarios for emerging risks and their strategic implications.

In 2010, the Zurich Financial Services Group enhanced its assessment of strategic risks by implementing procedures to aggregate and analyze its exposures by country. This helps the Zurich Financial Services Group evaluate when making strategic decisions whether its aggregated exposures, including insurance and investment exposures to a country, could become overly concentrated.

The Zurich Financial Services Group specifically evaluates the risks of M&A transactions both from a quantitative and a qualitative perspective. The Zurich Financial Services Group conducts risk assessments of M&A transactions to evaluate risks specifically related to the integration of acquired businesses.

Risk review *continued*

Insurance risk

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. The exposure is transferred to the Zurich Financial Services Group through the underwriting process. The Zurich Financial Services Group actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. As the Zurich Financial Services Group assumes certain customer risks, it aims 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 the Zurich Financial Services Group's insurance business
- Ceding insurance risk through proportional, non-proportional and specific risk reinsurance treaties. The Zurich Financial Services Group centrally manages reinsurance treaties.

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 Zurich Financial Services 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, and errors and omissions liability.
- Special lines include directors and officers, credit and surety, crime and fidelity, accident and health, and crop.
- Worker injury includes workers compensation and employers liability.

The Zurich Financial Services Group's underwriting strategy is to take advantage of the diversification of general insurance risks across industries and geographic regions in which the Zurich Financial Services Group operates. The Zurich Financial Services 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 its competitive strengths while avoiding risks with disruptive volatility. At the core of the Zurich Financial Services Group's underwriting is a robust governance process. The Zurich Financial Services Group's four major processes for underwriting governance – underwriting strategy, authorities, referrals and reviews – are implemented at Zurich Financial Services Group and local levels.

A fundamental component of managing insurance risk is underwriting discipline. The Zurich Financial Services Group sets limits on underwriting capacity, and cascades authority to individuals based on their specific expertise. Through The Zurich Way, the Zurich Financial Services Group sets appropriate pricing guidelines with a focus on consistent technical pricing across the organization. As part of these guidelines, the Zurich Financial Services 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 Zurich Financial Services Group's target. The ratio of actual premium to technical price is a key performance metric, which is monitored regularly. Technical reviews confirm whether underwriters perform within authorities and adhere to underwriting philosophies and policies. The Zurich Financial Services Group's global line of business networks share best practices across the globe, providing additional guidance and governance. The Zurich Financial Services Group has governance procedures to review and approve potential new products to evaluate whether the risks are well understood and justified by the potential rewards.

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

In addition to the specific risks insured, each line of business could expose the Zurich Financial Services 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 Zurich Insurance Group's concentration of risk within the General Insurance business by region and line of business based on direct written premiums before reinsurance. The Zurich Insurance Group's exposure to general insurance risks varies significantly by geographic region and may change over time. General Insurance premiums ceded to reinsurers (including retrocessions) amounted to USD 5.1 billion and USD 5.2 billion for the years ended December 31, 2010 and 2009, 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, 2010	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,400	2,645	3,462	1,489	2,118	11,114
Europe & Africa	6,467	5,142	2,304	2,144	457	16,513
International Markets[1]	1,181	1,085	324	593	95	3,278
Total	**9,048**	**8,872**	**6,090**	**4,225**	**2,670**	**30,906**

[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, 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

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 Zurich Insurance 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 Zurich Financial Services Group monitors insurance risk by evaluating extreme scenarios, taking into account non-linear effects of reinsurance contracts.

Risk review *continued*

Table 2.a

Insurance risk sensitivity for the General Insurance business

in USD millions, as of December 31, 2010	Global Corporate	North America Commercial	Europe General Insurance	International Markets
+1% in net loss ratio				
Net income before tax	(49)	(76)	(131)	(22)
Net assets	(39)	(61)	(105)	(18)

Table 2.b

Insurance risk sensitivity for the General Insurance business

in USD millions, as of 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	(36)	(64)	(107)	(16)

Modeling natural catastrophes

Understanding the potential effects of natural catastrophes is a critical component of risk management for General Insurance. While specific catastrophes are unpredictable, modeling helps to determine potential losses should catastrophes occur. The Zurich Financial Services Group uses a combination of third party and in-house models to manage its underwriting and accumulations in modeled areas to stay within intended exposure limits and to guide the levels of reinsurance the Zurich Financial Services Group buys.

The Zurich Financial Services Group models at the local and Zurich Financial Services Group level in order to assess and aggregate its exposures. The Zurich Financial Services Group centrally oversees its modeling for consistency in approach and to form a global perspective on accumulations. The Zurich Financial Services Group has technical centers embedded within the business which help to improve the overall quality of data. The Zurich Financial Services Group models potential losses from property policies located in the most hazard-prone areas and adjusts 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. The Zurich Financial Services Group constantly seeks to improve its modeling, to fill in gaps in models with additional assessments and to increase the granularity of data collection in order to increase the accuracy and utility of the information.

The Zurich Financial Services Group continues its efforts to extend assessments by evaluating potential correlations between property and other lines of business such as engineering or marine for major peril regions.

Risks from man-made catastrophes

Man-made catastrophes include such risks as industrial accidents and all types of terrorism attacks. The Zurich Financial Services Group'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, the Zurich Financial Services Group's accumulation monitoring and analyses contain a number of assumptions about the potential characteristics of such threats.

The Zurich Financial Services Group reviews and aggregates property and workers' injury exposures to identify areas of significant concentration. The Zurich Financial Services Group also assesses other lines of business, such as liability and auto, although the potential exposure is not as significant. The resulting data allows underwriters to evaluate how insuring a particular customer's risk might affect the Zurich Financial Services Group's overall exposure. In North America, the Zurich Financial Services Group uses a vendor-provided catastrophe model to evaluate potential exposures in every major U.S. city. The Zurich Financial Services Group undertakes more detailed and frequent analytics for cities in which the Zurich Financial Services Group has greater exposure. In 2010, the Zurich Financial Services Group continued to use a multi-disciplinary team to examine the vendor tool and make adjustments based on its own experience, expertise and view of the potential risks.

For areas other than North America, the Zurich Financial Services Group's analysis has shown that its exposures generally are significantly lower, due in large part to government-provided pools. The Zurich Financial Services Group periodically monitors accumulation limits for those areas, and continues to refine its analytics.

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 policyholders' 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 its 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 Zurich Financial Services Group's balance sheet positions where the value or cash flow depends on financial markets, which is analyzed in the 'Market Risk' section in the Risk Review.
- Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations, which is analyzed in the 'Credit Risk' section in the Risk Review.

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 between unit-linked and traditional business reduce some of the risk associated with Life Insurance business.

The Zurich Financial Services Group has local product development committees and a Zurich Financial Services 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 its risks. Such reviews allow the Zurich Financial Services Group to manage new risks inherent in its new business propositions. The Zurich Financial Services Group regularly reviews the continued suitability and the potential risks of existing products.

The Zurich Financial Services Group's use of market-consistent embedded value reporting principles allows the Zurich Financial Services Group to further understand and report on the risk profile of its Life products and how risks would change in differing market conditions. Embedded value is the measure that markets use to value life businesses, which is considered industry best practice.

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 Zurich Financial Services Group. Those risks inherent in these products are largely passed on to the policyholder, although a portion of the Zurich Financial Services Group's 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 Zurich Financial Services 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 include 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 Zurich American Life Insurance Company (ZALICO) (formerly known as KILICO) which in the past wrote variable annuity contracts that provide policyholders with certain guarantees related to minimum death and income benefits. After 2001, ZALICO no longer issued new

Risk review *continued*

policies with such features. In 2010, the Zurich Financial Services Group implemented a dynamic hedging strategy to manage its economic exposure and reduce the volatility associated with its closed book of variable annuities products within its U.S. life business. New Life products developed with financial guarantees are subject to review and approval by the Zurich Financial Services Group-level product approval committee.

The Zurich Financial Services Group defines concentration risk in the Life business as the risk of exposure to increased losses associated with inadequately diversified portfolios of assets and/or obligations. Concentration risk for a life insurer may arise with respect to investments in a geographic area, economic sector, or individual issuers, or due to a concentration of business written within a geographic area, of a policy type, or of underlying risks covered.

The Zurich Financial Services Group is exposed to two main types of concentration risk in its Life business:

- From a market risk perspective, interest rate guarantees in Germany and Switzerland expose the Zurich Financial Services Group to financial losses that may arise as a result of adverse movements in financial markets. The Zurich Financial Services Group also writes variable annuity business in the U.S. with minimum guaranteed death benefits and income retirement benefits. The management of these guarantees is a combination of asset-liability matching and hedging; see the 'Market Risk' section in the Risk Review.
- From an insurance risk perspective, the main factors that would affect concentration risk include mortality risk, morbidity risk, longevity risk, policyholder behavior risk (lapse, anti-selection) and expense risk. There is diversification across geographic regions, lines of business and even across the different insurance risk factors such that the Zurich Financial Services Group is not exposed to significant concentrations of insurance risk.

The following table shows the Zurich Insurance 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 Zurich Financial Services Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time.

See note 8 of the Consolidated financial statements for additional information on reserves for insurance contracts.

Table 3

Reserves, net of reinsurance, by region

in USD millions, as of December 31	Unit-linked insurance contracts		Other life insurance liabilities		Total reserves	
	2010	2009	2010	2009	2010	2009
Global Life						
Americas	968	854	7,149	6,730	8,117	7,584
United Kingdom	29,105	28,126	4,792	4,394	33,896	32,520
Germany	9,800	8,690	41,347	42,645	51,147	51,334
Switzerland	650	590	18,688	15,678	19,339	16,268
Ireland	278	131	1,318	1,337	1,596	1,469
Spain	5,352	4,411	6,783	9,670	12,134	14,080
Emerging Markets in Asia	2,259	1,960	1,156	1,115	3,415	3,075
Rest of the world	1,568	1,707	5,073	5,735	6,641	7,442
Eliminations	–	–	(1)	(2)	(1)	(2)
Subtotal	**49,978**	**46,468**	**86,306**	**87,304**	**136,284**	**133,772**
Other segments	11,807	11,736	5,770	6,168	17,577	17,905
Total	**61,786**	**58,204**	**92,075**	**93,472**	**153,861**	**151,676**

Sensitivities analysis for Life Insurance risk
The Zurich Insurance 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 Zurich Financial Services Group is based on a market-consistent approach to allow explicitly for market risks. See the Embedded Value Report in the Zurich Financial Services Group Annual Report 2010 (section 7. Sensitivities on page 273) for more information on the sensitivities of Life Insurance business to economic and operating risk factors.

Reinsurance for General Insurance and Life Insurance

The Zurich Financial Services Group's objectives for purchasing reinsurance are to provide market-leading capacity for customers while protecting the balance sheet and optimizing the Zurich Financial Services Group's

capital efficiency. The Zurich Financial Services Group follows a centralized purchasing strategy for both General Insurance and Life Insurance, and bundles programs where appropriate to benefit from diversification and economies of scale. Due to its strong balance sheet, the Zurich Financial Services Group is able to structure and align its reinsurance programs to achieve an optimum risk/reward ratio. The Zurich Financial Services Group is able to manage its risks to retain a significant and stable portion of premium for General Insurance. For Life Insurance, since 2007 the Zurich Financial Services Group has applied the same focus on risk and reward with the goal to optimize external protection.

The Zurich Financial Services Group continues to use traditional reinsurance markets and other alternatives, such as catastrophe bonds, to protect against extreme single events and increased frequency of events. The Zurich Financial Services Group is able to use its global reach in particular for catastrophe protection, where it has in place a combination of per event and annual aggregate covers, which protects the Zurich Financial Services Group's 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.

The Zurich Financial Services Group uses reinsurance to manage risk to unusually severe or unusually frequent events, through the main in-force reinsurance covers as of December 31, 2010, for natural catastrophe events. The Zurich Financial Services Group participates in the underlying risks through its retention and through its participation in the excess layers. The contracts are on a risk-occurrence basis except the aggregate catastrophe cover which operates on an annual aggregate basis. In addition to these covers, the Zurich Financial Services Group has per risk programs, local catastrophe covers, bilateral risk swaps and cat bonds in place. These covers are reviewed continuously and are subject to change going forward.

Market risk

Market risk is the risk associated with the Zurich Financial Services 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 Zurich Financial Services 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 Zurich Financial Services Group's risk tolerance as well as local regulatory constraints.

The Zurich Financial Services Group has policies and limits to manage market risk. The Zurich Financial Services Group aligns its strategic asset allocation to its risk-taking capacity. The Zurich Financial Services Group centralizes management of certain asset classes to control aggregation of risk, and provides a consistent approach to constructing portfolios and selecting external asset managers. The Zurich Financial Services Group also diversifies portfolios, investments and asset managers. The Zurich Financial Services Group regularly measures and manages market risk exposure. The Zurich Financial Services Group has established limits on 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 the Zurich Financial Services Group limits investments that are illiquid.

The Zurich Financial Services Group Balance Sheet Committee reviews and recommends the Zurich Financial Services Group's capital allocation to market risk, while the Asset/Liability Management and Investment Committee reviews and monitors the Zurich Financial Services Group's strategic asset allocation and tactical boundaries and monitors the Group's asset/liability exposure. The Zurich Financial Services Group oversees the activities of local Asset/Liability Management and Investment Committees and regularly assesses market risks both at a Zurich Financial Services 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.

Risk review *continued*

The Zurich Financial Services Group applies processes to manage market risk scenarios to test and analyze market hotspots, and risk mitigation actions are taken if necessary to manage fluctuations affecting asset/liability management and risk-based capital.

The Zurich Financial Services Group uses derivative financial instruments to limit market risks arising from changes in currency exchange rates, interest rates, equity prices and credit quality of assets and liabilities and commitments to third parties. The Zurich Financial Services 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 Zurich Financial Services Group's borrowings, in order to mitigate exposure to foreign currency and interest rate risk. In compliance with Swiss insurance regulation, the Zurich Financial Services 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 Zurich Financial Services Group addresses the risks arising from derivatives through a stringent policy that requires approval of a derivative program before transactions are initiated, and by subsequent regular monitoring by Zurich Financial Services Group Risk Management of open positions and annual reviews of derivative programs.

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

Risk from equity securities and real estate

The Zurich Financial Services 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 Zurich Financial Services 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 Zurich Financial Services Group is indirectly exposed to market movements from unit-linked contracts both with respect to earnings and with respect to economic capital. Market movements impact the amount of fee income earned when the fee income level is dependent on the valuation of the asset base. Also, the value of in-force business for unit-linked business can be negatively impacted by adverse movements in equity and real estate markets.

The Zurich Financial Services 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 policies and guidelines. Specifically, the Zurich Financial Services Group has established limits for holdings in equities, real estate and alternative investments.

For additional information on equity securities and real estate held for investment, see note 6 of the Consolidated financial statements.

Interest rate and credit spread risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Zurich Financial Services 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 Zurich Financial Services 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 Zurich Financial Services 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 Zurich Financial Services Group's available-for-sale debt securities through periodic recognition of changes in their fair values through shareholders' equity. The Zurich Financial Services Group also manages the credit spread risk, which describes the sensitivity of the values of assets and liabilities due to changes in the level or the volatility of credit spreads over the risk-free interest rate yield curves.

Returns on unit-linked contracts, whether classified as insurance or investment contracts, are at the risk of the policyholder; however, the Zurich Financial Services 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.

In 2010, the negative convexity embedded in Global Life's liabilities has exposed the Zurich Financial Services Group to large rises and falls in interest rates. In particular, exposure to the downward shock have risen as long-term

interest rates have fallen. The Zurich Financial Services Group purchased receiver swaptions to partially hedge the duration and convexity gap in the German Life business unit during 2010.

Analysis of market risk sensitivities

Basis of presentation – General Insurance and rest of the businesses

The basis of the presentation below is an economic valuation represented by the fair value for Zurich Insurance Group investments, IFRS insurance liabilities discounted at risk-free market rates (the Zurich Financial Services Group describes risk-free market rates as swap 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 Zurich Financial Services Group considers available to protect policyholders in a worst-case situation.

The following tables show the estimated economic market risk sensitivities of Zurich Insurance 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 Zurich Insurance Group. The net impact is the difference between the impact on Zurich Insurance Group investments and liabilities. The net impact represents the economic risk the Zurich Insurance Group faces related to changes in market risk factors. This is in line with management's monitoring of the Zurich Financial Services Group's investment and liabilities base. As mentioned above, Zurich Financial Services Group has established limits on holdings in real assets and deviations of asset interest rate sensitivities from liability interest rate sensitivities, in order to limit the economic impact of interest rate, equity and real estate risk.

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 after tax. They do not include the impact of Zurich Insurance 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. See the Embedded Value Report in the Zurich Financial Services Group Annual Report 2010 (section 10. Embedded Value Methodology, (r) Sensitivities on page 281 and section 11. Embedded Value Assumptions, (a) Economic Assumptions on pages 282-284) 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 Zurich Financial Services Group uses 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 the Zurich Financial Services Group's view of expected future market changes. In addition to the sensitivities, management uses stress scenarios to assess the impact of more severe market movements on the Zurich Insurance Group's financial condition.
- The sensitivity analysis is calculated after tax; the Zurich Insurance Group internal tax rate is assumed to be 20.1 percent for 2010. For 2009, it is calculated at 23.2 percent.

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 all property markets, and an unrelated parallel shift of all interest rates in different currencies.

Risk review *continued*

- 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.

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, 2010 and 2009, respectively.

Table 4.a

Economic interest rate sensitivities for the General Insurance business – current period

in USD millions, as of December 31, 2010	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(1,293)	(530)	(307)	(260)	(175)	**(2,564)**
Liabilities	(967)	(382)	(287)	(353)	(92)	**(2,082)**
Net impact before tax	(326)	(148)	(19)	93	(82)	**(482)**
Tax impact	66	30	4	(19)	17	**97**
Net impact after tax	(260)	(118)	(16)	75	(66)	**(385)**
100 basis points decrease in the interest rate yield curves						
Group investments	1,176	560	325	246	172	**2,479**
Liabilities	966	389	304	382	92	**2,133**
Net impact before tax	210	170	21	(136)	80	**346**
Tax impact	(42)	(34)	(4)	27	(16)	**(69)**
Net impact after tax	168	136	17	(109)	64	**276**

Table 4.b

Economic interest rate sensitivities for the General Insurance business – prior period

in USD millions, as of December 31, 2009	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 before tax	(235)	(209)	11	39	(70)	**(464)**
Tax impact	55	48	(3)	(9)	16	**108**
Net impact after tax	(180)	(160)	8	30	(54)	**(356)**
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 before tax	82	221	(8)	(86)	70	**279**
Tax impact	(19)	(51)	2	20	(16)	**(65)**
Net impact after tax	63	170	(6)	(66)	54	**214**

Economic interest rate sensitivities for the Global Life business – current period

Table 5.a

in USD millions, as of December 31, 2010	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Total impact on Embedded Value	(207)	156	(73)	29	(67)	**(164)**
100 basis points decrease in the interest rate yield curves						
Total impact on Embedded Value	185	(886)	86	(77)	94	**(598)**

Economic interest rate sensitivities for the Global Life business – prior period

Table 5.b

in USD millions, as of December 31, 2009	USD	EUR	GBP	CHF	Other currencies	Total
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)**

Economic interest rate sensitivities for the rest of the businesses – current period

Table 6.a

in USD millions, as of December 31, 2010	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(743)	(104)	(24)	(1)	(1)	**(873)**
Liabilities	(512)	(114)	(2)	(27)	–	**(656)**
Net impact before tax	(230)	9	(23)	27	(1)	**(218)**
Tax impact	30	(2)	3	(5)	–	**26**
Net impact after tax	(200)	8	(20)	21	(1)	**(192)**
100 basis points decrease in the interest rate yield curves						
Group investments	813	105	25	7	1	**951**
Liabilities	627	114	2	16	–	**759**
Net impact before tax	186	(8)	23	(9)	1	**193**
Tax impact	(45)	2	(2)	2	–	**(44)**
Net impact after tax	141	(7)	20	(7)	1	**148**

Risk review *continued*

Table 6.b

Economic interest rate sensitivities for the rest of the businesses – prior period

in USD millions, as of December 31, 2009	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(802)	84	(254)	11	(3)	**(964)**
Liabilities	(635)	(153)	(35)	(43)	–	**(866)**
Net impact before tax	(167)	237	(219)	54	(3)	**(99)**
Tax impact	61	(55)	48	(12)	1	**43**
Net impact after tax	(106)	182	(171)	41	(2)	**(56)**
100 basis points decrease in the interest rate yield curves						
Group investments	884	(97)	291	(1)	2	**1,079**
Liabilities	786	160	44	30	–	**1,020**
Net impact before tax	98	(257)	247	(32)	2	**59**
Tax impact	(45)	60	(54)	7	–	**(33)**
Net impact after tax	53	(197)	192	(24)	2	**25**

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, 2010 and 2009, respectively. For Global Life, the analysis also includes the impact from a 10 percent decline in property market values.

Table 7

Economic equity price sensitivities for the General Insurance business

in USD millions, as of December 31	**2010**	2009
10% decline in stock markets		
Group investments	(435)	(362)
Net impact before tax	(435)	(362)
Tax impact	87	84
Net impact after tax	(348)	(278)

Table 8

Economic equity price sensitivities for the Global Life business

in USD millions, as of December 31	**2010**	2009
10% decline in stock and property market values		
Impact of a decline in stock market values	(261)	(233)
Impact of a decline in property market values	(294)	(240)
Total impact on Embedded Value	(556)	(473)

Table 9

Economic equity price sensitivities for the rest of the businesses

in USD millions, as of December 31	**2010**	2009
10% decline in stock markets		
Group investments	(314)	(145)
Liabilities	75	167
Net impact before tax	(389)	(312)
Tax impact	68	68
Net impact after tax	(321)	(244)

Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates. The Zurich Insurance Group operates internationally and therefore is exposed to the financial impact arising from changes in the exchange rates of various currencies. The Zurich Insurance Group's presentation currency is the U.S. dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in the euro, Swiss franc, British pound, as well as the U.S. dollar.

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 Zurich Financial Services Group manages this risk by matching foreign currency positions on local balance sheets within prescribed limits. Residual local mismatches are reported centrally in order to make use of the netting effect across the Zurich Financial Services Group. The Zurich Financial Services Group then hedges residual mismatches from local balance sheets through a central balance sheet within an established limit. The monetary currency risk exposure on local balance sheets is considered immaterial.

Because the Zurich Insurance Group has chosen the U.S. dollar as its presentation currency, differences arise when functional currencies are translated into the presentation currency. The Zurich Financial Services Group does not hedge movements of the currency translation adjustment, or take speculative positions on foreign currency market movements. Using constant exchange rates from one year to the next, the Zurich Insurance Group's 2010 net income attributable to shareholders would have been higher by USD 202 million (applying 2009 exchange rates to the 2010 result). In 2009 the result would have been higher by USD 70 million (applying 2008 exchange rates to the 2009 results).

The table below shows the sensitivity of the total IFRS equity to changes in exchange rates for the main functional currencies to which the Zurich Insurance Group is exposed. Positive values represent an increase in the value of the Zurich Insurance Group's total equity. The sensitivity analysis does not take into account management actions. The sensitivities show the effects of a change of the exchange rates only, while other assumptions remain unchanged. 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 Zurich Financial Services Group's view of expected future market changes. While the table below shows the effect of a 10 percent increase in currency exchange rates, a decrease of 10 percent would have the converse effect.

See notes 1 and 3 of the Consolidated financial statements for additional information on foreign currency translation and transactions.

Sensitivity of the total equity to exchange rate fluctuations

Table 10

in USD millions, as of December 31	**2010**	2009
10% increase in		
EUR/USD rate	907	1,109
GPB/USD rate	398	347
CHF/USD rate	(136)	(756)
Other currencies/USD rates	480	438

Risk review *continued*

Credit risk

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

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

The Zurich Financial Services Group manages individual exposures as well as credit risk concentrations. The Zurich Financial Services Group's objective in managing credit risk exposures is to maintain them within parameters that reflect the Zurich Financial Services Group's strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Zurich Financial Services Group has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Zurich Financial Services 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, the Zurich Financial Services Group assesses the reasons for the inconsistencies and applies the lowest of the respective ratings unless other indicators of declining credit quality justify the assignment of lower internal credit ratings. The Zurich Financial Services Group maintains counterparty credit risk databases, which record external and internal sources of credit intelligence.

In 2010, the global sovereign credit crisis was dominated by Greece, Ireland, Italy, Portugal and Spain. Although Greece was technically the weakest, Ireland's repeated support of its large banking sector created greater creditworthiness concerns (see the 'Credit Risk Related to Debt Securities' section in the Risk Review). The concept of risk-free sovereign debt within developed economies was dispelled and numerous sovereign and corporate rating downgrades followed. Further differentiation occurred between stronger and weaker credits, with fairly stable investment-grade default rates, while speculative-grade default rates in the current cycle exceed levels last seen in the 1991 recession. The Zurich Financial Services Group's portfolio maintained its high average credit quality ('AA–') throughout 2010 and is well positioned to continue this.

The Zurich Financial Services Group regularly tests and analyzes credit risk scenarios. Commencing in 2008, the Zurich Financial Services Group expanded the number and the specificity of scenarios tested, and has prepared possible contingency measures, which may be implemented should the credit risk environment worsen.

From the expanded set of scenarios, the Zurich Financial Services Group has selected and standardized those most relevant to the Zurich Financial Services Group. The Zurich Financial Services Group can adjust the scenarios if market conditions warrant.

Although the Zurich Financial Services Group actively uses collateral to mitigate credit risks, the principle is nevertheless to manage the underlying credit risks independently from the collateral. In light of the 2008-2009 banking crisis, the Zurich Financial Services Group has established limits and quality criteria to identify acceptable letter of credit providers. Letters of credit enable the Zurich Financial Services Group to limit the risk embedded in reinsurance captives and deductibles.

Credit risk concentration

The Zurich Financial Services 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 Zurich Financial Services 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 Zurich Financial Services 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, 2010 and December 31, 2009, respectively. The Zurich Financial Services Group's 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, such as letters of credit, used to protect the underlying credit exposures on the balance sheet.

Credit risk related to cash and cash equivalents

The Zurich Financial Services Group has significant exposure to cash and cash equivalents across the globe. In order to mitigate concentration, settlement and operational risks related to cash and cash equivalents, the Zurich Financial Services Group limits the maximum cash amount that can be deposited with a single counterparty. In addition, the Zurich Financial Services Group maintains an authorized list of acceptable cash counterparties based on current ratings and outlook, taking into account analysis of fundamentals and market indicators.

Cash and cash equivalents amounted to USD 9.9 billion as of December 31, 2010 and USD 11.9 billion as of December 31, 2009. The decrease was partly related to

cash being invested in highly liquid assets (see the 'Liquidity Risk' section in the Risk Review). 40 percent of the total was with the ten largest global banks, whose average rating was 'A+' as of December 31, 2010. 40 percent of the total was with the 10 largest global banks, whose average rating was 'A+', as of December 31, 2009. The risk-weighted average rating of the overall cash portfolio remained stable at 'A+' in 2010 and 2009.

Credit risk related to debt securities

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

Table 11

Debt securities by rating of issuer

as of December 31	2010		2009	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	73,407	52.5%	69,306	50.8%
AA	16,149	11.5%	17,594	12.9%
A	36,864	26.3%	36,288	26.6%
BBB	11,443	8.2%	10,363	7.6%
BB and below	1,769	1.3%	2,709	2.0%
Unrated	304	0.2%	179	0.1%
Total	**139,936**	**100.0%**	**136,439**	**100.0%**

As of December 31, 2010, investment grade securities comprise 98.5 percent of the Zurich Insurance Group's debt securities, and 52.5 percent are rated 'AAA'. Debt securities rated 'BBB' and below are within the limits of the Zurich Financial Services Group's risk policy. As of December 31, 2009, investment grade securities comprised 97.9 percent of debt securities, and 50.8 percent were rated 'AAA'. The Zurich Financial Services Group's investment policy prohibits speculative grade investments, unless specifically authorized and under exceptional circumstances. The Zurich Financial Services Group identifies investments expected to be downgraded to below investment grade and implements appropriate corrective actions.

The risk-weighted average issuer credit rating of the Zurich Insurance Group's debt securities portfolio is 'AA–' (2009: 'AA–'). Applying a linear average, the average rating would be 'AA', (2009: 'AA–'), which is in line with the Zurich Financial Services Group's risk policy.

As of December 31, 2010 the largest concentration in the Zurich Insurance Group's debt securities portfolio is in government and supranational debt securities at 43.1 percent. A total of USD 41.3 billion or 51.4 percent of the non-government and non-supranational debt securities are secured. As of December 31, 2009, 41.6 percent of the Zurich Insurance Group's debt portfolio was invested in governments and supranationals and a total of USD 43.0 billion or 54.3 percent of the non-government and non-supranational debt securities were secured.

As of December 31, 2010 and 2009 respectively, the Zurich Insurance Group had the following sovereign debt exposure to Greece, Ireland, Italy, Portugal and Spain.

Table 12

Sovereign debt exposure

in USD millions, as of December 31	**2010**	2009
Greece	36	467
Ireland	818	883
Italy	7,186	7,579
Portugal	753	558
Spain	1,949	2,277
Total	**10,742**	**11,764**

Risk review *continued*

The second largest concentration in the Zurich Insurance Group's debt securities portfolio is to financial institutions (including banks), at 23.1 percent, of which 44.6 percent is secured. In response to the 2010 European sovereign debt crisis, the Zurich Financial Services Group identified and selectively reduced subordinated credit exposure issued by banks with weak credit profiles, and credit exposure to banks supported by weaker sovereigns.

The third largest concentration is to structured finance securities (mortgage backed securities (MBS)/asset backed securities (ABS) and similar). Although credit risks of underlying securities are diverse in nature, the Zurich Financial Services Group also considers macro impacts that may affect structured finance sub-categories (e.g. auto or credit card ABS's) in its credit assessments. All structured finance exposures are assessed on a look-through basis prior to acquisition and not merely on the strength of prevailing credit ratings or credit profiles.

Credit risk related to reinsurance assets

As part of its overall risk management strategy, the Zurich Financial Services 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 Zurich Financial Services Group to credit risk.

The Zurich Financial Services Group's Corporate Reinsurance Security Committee manages the credit quality of cessions and reinsurance assets. The Zurich Financial Services Group typically cedes new business to authorized reinsurers with a minimum rating of 'BBB'. 54 percent and 74 percent of the business ceded to reinsurers that fall below 'BBB' or are not rated are collateralized, as of December 31, 2010 and 2009, respectively. Of these percentages, 42 percent and 51 percent are ceded to captive insurance companies, in 2010 and 2009, respectively.

Reinsurance assets include reinsurance recoverables of USD 18.9 billion and USD 18.8 billion as of December 31, 2010 and 2009, respectively, which are the reinsurers' share of reserves for insurance contracts, and receivables arising from ceded reinsurance, gross of allowance for impairments, of USD 1.2 billion and USD 1.1 billion as of December 31, 2010 and 2009, respectively. Reserves for potentially uncollectible amounts of reinsurance assets amount to USD 234 million and USD 268 million as of December 31, 2010 and 2009, respectively. The Zurich Financial Services 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 Zurich Financial Services 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.

Compared with December 31, 2009, collateral went down by USD 465 million to USD 8.0 billion. The decrease in collateral was mainly due to the fact that it became more difficult for the Zurich Financial Services Group insureds to obtain affordable letter of credit cover in light of the financial crisis. Nevertheless the increase in unsecured exposure to captives is still within the Zurich Financial Services Group's defined risk boundaries. Because the Zurich Financial Services Group expects the pressure on obtaining collateral to continue, the Zurich Financial Services Group continues to work with its largest customers on solutions for alternative credit mitigants.

The risk-weighted average credit quality of reinsurance assets (including receivables, but after deduction of collateral) was 'A' as of December 31, 2010 and 2009, 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 the Zurich Financial Services Group applies 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.

Reinsurance premiums ceded and reinsurance assets by rating of reinsurer and captive

Table 13

as of December 31	2010				2009			
	Premiums ceded		Reinsurance assets		Premiums ceded		Reinsurance assets	
	USD millions	% of total	USD millions	% of total	USD millions	% of total	USD millions	% of total
Rating								
AAA	88	1.5%	94	0.5%	107	1.8%	85	0.4%
AA	1,150	20.2%	6,729	33.8%	1,209	20.7%	6,519	33.2%
A	2,482	43.7%	8,884	44.6%	2,401	41.1%	9,402	47.8%
BBB	700	12.3%	1,596	8.0%	693	11.9%	1,244	6.3%
BB	168	2.9%	600	3.0%	268	4.6%	410	2.1%
B	27	0.5%	101	0.5%	49	0.8%	87	0.4%
Unrated	1,070	18.8%	1,899	9.5%	1,117	19.1%	1,915	9.7%
Total	**5,683**	**100.0%**	**19,903**	**100.0%**	**5,844**	**100.0%**	**19,662** [1]	**100.0%**

[1] The value of the collateral received amounts to USD 8.0 billion and USD 8.4 billion as of December 31, 2010 and 2009, respectively.

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

Mortgage loans and mortgage loans given as collateral expose the Zurich Financial Services 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 Zurich Financial Services Group Asset/Liability Management Investment Committee and adapted and approved by local investment committees. Conservative lending criteria (i.e. maximum mortgage loan to property value ratios) and the diversification of loans across many single borrowers, particularly in Germany and in Switzerland, help reduce potential loss. Furthermore, business units are required to clearly state criteria for determining borrower and collateral quality in their local mortgage policies. The Zurich Financial Services Group specifies requirements for the local policies and sets monitoring and reporting standards. The Zurich Financial Services Group closely monitors the performance of the portfolios in terms of impairments and losses.

The Zurich Insurance Group's largest mortgage loan portfolios are in Germany (USD 6.1 billion, including mortgage loans given as collateral) and in Switzerland (USD 4.3 billion); these are predominantly secured against residential property.

Mortgage loans are lent against underlying property (collateral). In Switzerland, the underlying properties of individual loans are revalued every 10 years. In Germany, the property valuation is not generally reassessed after the granting of the mortgage loan. A less frequent or no revaluation of the underlying property means that reported loan-to-value (LTV) ratios will be higher (lower) than they would be if property prices have risen (fallen) since their valuation. To ensure LTV ratios are not understated and to identify potentially higher LTV loans, the Zurich Financial Services Group has undertaken to revalue properties in locations where property prices may have fallen since their valuation and to be conservative in valuing or revaluing property in locations where prices have substantially risen.

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. 65.3 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, 2010, a total of USD 9.8 billion or 68.2percent of loans are secured. As of December 31, 2009, a total of USD 10.9 billion or 68.6 percent of loans were secured.

Risk review *continued*

Other loans by rating of issuer

Table 14

as of December 31	2010		2009	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	7,113	49.5%	7,934	49.9%
AA	2,313	16.1%	2,494	15.7%
A	3,211	22.4%	3,718	23.4%
BBB and below	81	0.6%	28	0.2%
Unrated	1,643	11.4%	1,722	10.8%
Total	**14,361**	**100.0%**	**15,896**	**100.0%**

Credit risk related to receivables

The Zurich Financial Services 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 Zurich Financial Services Group or pay claims to customers on behalf of the Zurich Financial Services Group. The Zurich Financial Services 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 Zurich Financial Services Group requires that intermediaries maintain segregated cash accounts for policyholder money. Additionally, the Zurich Financial Services 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 Zurich Financial Services Group reports internally on Zurich Financial Services 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 2010, the Zurich Financial Services Group continued efforts to reduce past-due receivables through both short- and long-term initiatives to improve processes and systems; some progress was made, particularly in reducing long-outstanding past-due receivables. 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.

See 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 Zurich Financial Services Group. In addition there is a potential exposure arising from possible changes in replacement value. The Zurich Financial Services 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 Zurich Financial Services Group standard to only transact derivatives with counterparties where the Zurich Financial Services Group has 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. The Zurich Financial Services Group mitigates credit exposures from derivative transactions further by using exchange-traded instruments whenever possible.

Analysis of financial assets

The table on the next page 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.

Analysis of financial assets – current period

Table 15.a

in USD millions, as of December 31, 2010	Debt securities	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**139,186**	**9,977**	**737**	**14,360**	**14,953**	**179,213**
Past due but not impaired financial assets. Past due by:						
1 to 90 days	–	–	–	1	1,376	1,377
91 to 180 days	–	–	–	–	325	326
181 to 365 days	–	–	–	–	231	231
> 365 days	–	45	4	–	292	342
Past due but not impaired financial assets	**–**	**45**	**4**	**1**	**2,225**	**2,275**
Financial assets impaired	**750**	**25**	**2**	**1**	**176**	**954**
Gross carrying value	**139,936**	**10,047**	**744**	**14,361**	**17,354**	**182,442**
Less: impairment allowance						
Impairment allowances on individually assessed financial assets	–	7	–	1	123	131
Impairment allowances on collectively assessed financial assets	–	8	–	–	199	207
Net carrying value	**139,936**	**10,032**	**743**	**14,361**	**17,032**	**182,104**

[1] Available-for-sale debt securities are included net of USD 137 million of impairment charges recognized during the year.

Risk review *continued*

Analysis of financial assets – prior period

Table 15.b

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	**135,813**	**10,410**	**1,090**	**15,896**	**16,054**	**179,262**
Past due but not impaired financial assets. Past due by:						
1 to 90 days	–	–	–	–	1,188	1,188
91 to 180 days	–	–	–	–	274	274
181 to 365 days	–	–	–	–	254	254
> 365 days	–	49	9	–	448	507
Past due but not impaired financial assets	**–**	**50**	**9**	**–**	**2,164**	**2,223**
Financial assets impaired	**758**	**29**	**5**	**1**	**226**	**1,019**
Gross carrying value	**136,571**	**10,489**	**1,103**	**15,897**	**18,443**	**182,504**
Less: impairment allowance						
Impairment allowances on individually assessed financial assets	132	9	1	1	160	304
Impairment allowances on collectively assessed financial assets	–	9	–	–	276	284
Net carrying value	**136,439** [1]	**10,472**	**1,102**	**15,896**	**18,007**	**181,916**

[1] Available-for-sale debt securities are included net of USD 510 million of impairment charges recognized during 2009.

The table below shows how the allowances for impairments of financial assets shown in tables 15.a and 15.b have developed over the 2009 and 2010 financial years.

Development of allowance for impairments – current period

Table 16.a

in USD millions	Debt securities held-to-maturity	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables
As of January 1, 2010	132	17	1	1	436
Increase/(decrease) in allowance for impairments	(40)	4	–	19	(90)
Amounts written-off	(83)	(6)	(1)	(20)	(17)
Foreign currency translation effects	(10)	(1)	–	–	(6)
As of December 31, 2010	**–**	**15**	**–**	**1**	**323**

Development of allowance for impairments – prior period

Table 16.b

in USD millions	Debt securities held-to-maturity	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables
As of January 1, 2009	65	28	1	6	457
Increase/(decrease) in allowance for impairments	63	(5)	1	(4)	(26)
Amounts written-off	–	(6)	(1)	(1)	(6)
Foreign currency translation effects	4	1	–	–	12
As of December 31, 2009	**132**	**17**	**1**	**1**	**436**

Liquidity risk

Liquidity risk is the risk that the Zurich Financial Services 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. The Zurich Financial Services Group'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 Zurich Financial Services Group assesses, monitors and manages its liquidity needs on an ongoing basis.

The Zurich Financial Services 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 Zurich Financial Services 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 Zurich Financial Services Group would face if it had to recapitalize local balance sheets.

At the Zurich Financial Services Group level, similar guidelines apply and detailed liquidity forecasts based on the local businesses' input and the Zurich Financial Services Group's own forecasts are regularly performed. As part of its liquidity management, the Zurich Financial Services Group maintains sufficient cash and cash equivalents and high quality, liquid investment portfolios to meet expected outflows including those for maturing debt obligations. In addition, the Zurich Financial Services Group maintains internal liquidity sources that cover the Zurich Financial Services Group's potential liquidity needs, including under stressed conditions. The Zurich Financial Services Group takes into account the amount, permanence of availability and speed of accessibility of the sources. The Zurich Financial Services 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 Zurich Financial Services Group maintains a broad range of maturities for external debt securities. A possible concentration risk could arise from a downgrade of the Zurich Financial Services Group's credit rating. This could impact the Zurich Financial Services Group's commitments and guarantees, thus potentially increasing the Zurich Financial Services Group's liquidity needs. These contingencies are also considered in the Zurich Financial Services Group's liquidity management.

The Zurich Financial Services 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 2010, the Zurich Financial Services 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 into three levels to reflect how their fair value was determined. These tables indicate the high liquidity of the Zurich Financial Services Group's investments.

See note 22 of the Consolidated financial statements for additional information on debt obligation maturities and on credit facilities and to note 26 of the Consolidated financial statements for information on commitments and guarantees.

The Zurich Financial Services Group's regular liquidity monitoring includes monthly reporting to the Zurich Financial Services Group Finance and Risk Committee and executive management and quarterly reporting to the Board Risk Committee, covering aspects such as the Zurich Financial Services Group's actual and forecasted liquidity, possible adverse scenarios that could affect the Zurich Financial Services Group's liquidity and possible liquidity needs from the Zurich Financial Services 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, 2010 and 2009. Reserves for unit-linked insurance contracts amounting to USD 61.8 billion and USD 58.2 billion as of December 31, 2010 and 2009, 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.

Expected maturity profile for reserves for insurance contracts, net of reinsurance – current period

Table 17.a

in USD millions, as of December 31, 2010	Reserves for losses and loss adjustment expenses	Future life policyholders' benefits	Policyholders' contract deposits and other funds	Total
< 1 year	17,642	6,433	1,123	25,198
1 to 5 years	22,840	20,585	2,083	45,507
6 to 10 years	8,028	15,683	2,448	26,159
11 to 20 years	5,247	18,258	2,231	25,736
> 20 years	2,220	15,932	7,300	25,452
Total	**55,976**	**76,891**	**15,184**	**148,051**

Risk review *continued*

Table 17.b

Expected maturity profile for reserves for insurance contracts, net of reinsurance – prior period

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	Total
< 1 year	14,777	5,803	1,397	21,978
1 to 5 years	22,169	21,837	1,908	45,914
6 to 10 years	8,065	16,399	2,482	26,946
11 to 20 years	6,836	17,618	2,617	27,071
> 20 years	4,056	15,414	7,996	27,466
Total	**55,903**	**77,072**	**16,400**	**149,375**

For additional information on reserves for insurance contracts, see 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, 2010 and 2009. The undiscounted contractual cash flows for liabilities for investment contracts are USD 50.8 billion and USD 48.4 billion as of December 31, 2010 and December 31, 2009, respectively. Liabilities for unit-linked investment contracts amount to USD 44.9 billion and USD 40.1 billion as at December 31, 2010 and 2009, 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 1.0 billion and USD 1.2 billion as of December 31, 2010 and 2009 respectively. The Zurich Financial Services Group has established active management of the Global Life in-force business to improve persistency and retention.

Table 18.a

Expected maturity profile for liabilities for investment contracts – current period

in USD millions, as of December 31, 2010	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	3,853	347	326	4,526
1 to 5 years	5,704	67	1,207	6,977
6 to 10 years	6,805	143	932	7,879
11 to 20 years	9,115	35	630	9,780
> 20 years	19,464	1	2,040	21,505
Total	**44,941**	**592**	**5,134**	**50,667**

Table 18.b

Expected maturity profile for liabilities for investment contracts – prior period

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**

See 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 Zurich Insurance Group's other financial liabilities, see note 20 of the Consolidated financial statements. See note 6 of the Consolidated financial statements for information on the maturity of debt securities for total investments.

The Zurich Financial Services 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 Zurich Financial Services 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.

The Zurich Financial Services Group has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk within the Zurich Financial Services Group.

Within this framework, the Zurich Financial Services Group:

- Uses a scenario-based approach to assess, quantify and allocate risk-based capital for operational risk for all business units. This approach allows comparison information across the Zurich Financial Services 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 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 Zurich Financial Services Group level. Plans for improvement actions are documented and tracked on an ongoing basis. The Zurich Financial Services 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 2010, the scoping resulted in at least 31 percent of business units, responsible for at least 65 percent of operational risk RBC, conducting operational risk assessments. In the assessments, the Zurich Financial Services Group makes 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 its overall framework, the Zurich Financial Services Group has 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, the Zurich Financial Services Group especially focused in 2010 on rolling out a global data security improvement initiative with special emphasis on data classification and ownership; improving data security with its suppliers and monitoring access to customer data. This helps the Zurich Financial Services Group's businesses to further enhance data protection measures for electronic and non-electronic information assets to protect data from theft or loss.

A key task is keeping the Zurich Financial Services Group's business continuity plans up-to-date, with an emphasis on recovery from events such as natural catastrophes and the possibility of a pandemic. In 2010, the Zurich Financial Services Group continued to develop its existing business continuity capability. A full review of the business continuity operating model was undertaken in the first half of the year. Initial steps to implement the review findings were undertaken to provide a more globally consistent business continuity program.

Addressing the risk of claims and non-claims fraud continues to be of importance. In 2010, the Zurich Financial Services Group continued a global anti-fraud initiative to further improve the Zurich Financial Services 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 the 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 the Zurich Financial Services Group manage operational risks through standardization of processes. Projects with an expected budget over a defined threshold undergo a risk assessment.

The Zurich Financial Services Group considers controls to be key instruments for monitoring and managing operational risk. Although primarily focused on important controls for financial reporting, internal control efforts also include related operational and compliance controls. Therefore, the Zurich Financial Services Group continues to strengthen the consistency, documentation and assessment of internal controls for significant entities, processes and locations. Operational effectiveness of key controls is assessed in various ways, including self assessment, management validation and independent testing.

Risk review *continued*

Risks to the Zurich Financial Services Group's reputation

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

Additionally, the Zurich Financial Services Group endeavors to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles of Zurich Basics, the Zurich Financial Services Group's code of conduct, which includes integrity and good business practice. The Zurich Financial Services Group centrally manages certain aspects of reputation risk, for example, communications, through functions with the appropriate expertise.

Capital management and analysis of capital adequacy

Capital management

The Zurich Financial Services 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 Zurich Financial Services Group endeavors to manage its capital such that the Zurich Financial Services Group and all of its regulated entities are adequately capitalized in compliance with the relevant regulatory capital adequacy requirements.

Further, the Zurich Financial Services Group strives to simplify the Zurich Financial Services Group's legal entity structure in order to reduce complexity and increase fungibility of capital. The Zurich Financial Services Group also wants to minimize constraints to capital fungibility by pooling risk, capital and liquidity centrally as much as possible.

Capital management framework

The Zurich Financial Services Group's capital management framework forms the basis for actively managing capital within Zurich Financial Services Group.

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

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

Within these defined principles, the Zurich Financial Services Group manages its capital using a number of different capital models taking into account regulatory, economic and rating agency constraints. The Zurich Financial Services Group's capital and solvency position is monitored and reported regularly. Based on the results of the capital models and defined standards and principles, Zurich Financial Services 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

The Zurich Financial Services Group's capital management program comprises various actions to optimize shareholders' total return and to meet capital needs, while enabling Zurich to take advantage of growth opportunities as they arise. Such actions are performed as and when required and include dividends, share buy-backs, issuances of shares, issuance of senior and hybrid debt, securitization and purchase of reinsurance.

The Zurich Financial Services Group seeks to maintain the balance between higher returns for shareholders on equity held, 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, the Zurich Financial Services Group has undertaken a number of actions. It has continued its major legal entity reorganization project in Europe by transferring its main German General Insurance unit into a German branch of its Irish carrier, Zurich Insurance plc, following the transfer of Italy, Spain and Portugal on January 1, 2010.

The Zurich Financial Services Group reduced capital support to the Farmers Exchanges, which are managed but not owned by a wholly owned subsidiary of the Zurich Financial Services Group, through a reduction of the quota share reinsurance agreement from 35 percent at the beginning of 2010 to 12 percent as of December 31, 2010.

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; therefore the earnings allocated to those reserves are restricted. As of December 31, 2010, the amount of the general legal reserve exceeded 20 percent of the paid-in share capital of the Zurich Financial Services Group. Similarly, company laws in many countries in which the Zurich Financial Services Group's subsidiaries operate may restrict the amount of dividends payable by those subsidiaries to their parent companies.

Risk review *continued*

Other than by operation of the restrictions mentioned above, the ability of the Zurich Financial Services 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 such as foreign exchange control restrictions existing in some countries.

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.

For details on dividend payments, share buy-backs, and issuances and redemptions of debt, see notes 22 and 23 of the Consolidated financial statements. For details on the quota share reinsurance agreement provided to the Farmers Exchanges, see note 29 of the Consolidated financial statements.

Analysis of capital adequacy

Regulatory capital adequacy

The Zurich Financial Services 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 Zurich Financial Services 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 Zurich Financial Services 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 Zurich Financial Services Group is subject to different capital requirements depending on the country in which it operates. The main areas are Switzerland and 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 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.

Some countries have already introduced, or are in the process of introducing, requirements for an economic risk-based capital assessment. In Switzerland, the transition period for the Swiss Solvency Test (SST) has expired and the SST has become fully effective and mandatory as of January 1, 2011. Under SST, groups, conglomerates and reinsurers are required to use company-specific internal models to calculate risk-bearing and target capital. Internal models must be approved by the Swiss Financial Market Supervisory Authority (FINMA). In 2010, the Zurich Financial Services Group continued to further enhance and refine its internal model to meet evolving regulatory requirements. The model approval process continues with FINMA, which has approved on a provisional basis the use of the Zurich Financial Services Group's internal model for 2011, without prejudicing the final approval of the internal model. Zurich Financial Services Group has filed an SST ratio with FINMA in excess of 200 percent for the Zurich Financial Services Group, both as of December 31, 2009 and as of June 30, 2010.

On November 25, 2009 the directive on Solvency II was adopted. Solvency II introduces a new 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 assessment, 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.

EU/EEA Member States must bring into force the laws, regulations and administrative provisions necessary to comply with the directive by January 1, 2013, at the latest. The Zurich Financial Services Group is fully engaged in an extensive program of work in order to meet all Solvency II requirements by this deadline. The Zurich Financial Services Group intends to use its internal model, which aligns the Solvency II approach with that used for the SST. The Zurich Financial Services Group has started the pre-application process in order to gain regulatory approval for the internal model from the EU supervisors, coordinated by the Central Bank of Ireland, the Zurich Financial Services Group's EU lead regulator from 2011. In addition, the Zurich Financial Services Group participated in the Solvency II Quantitative Impact Study 5 (QIS5), presenting results to six EU regulators in 2010. QIS5 helps companies prepare for the Solvency II requirements and is important for calibration of the standard model, which is used by smaller insurance companies that may not have an internal model.

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.

At a Zurich Financial Services Group level, Zurich Financial Services Group endeavors to pool risk and capital as much as possible and thereby create diversification benefits for the Zurich Financial Services Group. This also allows the Zurich Financial Services Group to take into account the benefits that arise from this pooling in those regions where these benefits are recognized under the capital adequacy regime, e.g. in the U.S., Ireland, and Switzerland.

Throughout 2009 and 2010, the Group and all its material, regulated subsidiaries complied with the applicable regulatory minimum capital requirements.

Rating agency leverage

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. The Zurich Financial Services Group maintains a continuous dialogue with rating agencies regarding the assessment of capital adequacy and leverage position.

The financial strength ratings of the Zurich Financial Services Group's main operating entities are an important element of the Zurich Financial Services Group's competitive position. Moreover, the credit ratings derived from the financial strength ratings affect the cost of capital. As of December 31, 2010 the financial strength rating of Zurich Insurance Company Ltd and other key operating legal entities of the Zurich Financial Services Group was rated by Standard and Poor's as 'AA–/stable', by A.M. Best as 'A+/stable' and by Moody's as 'A1/on review for possible upgrade'. The Zurich Financial Services Group is no longer rated by Fitch.

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Consolidated income statements

in USD millions, for the years ended December 31	Notes	2010	Restated 2009
Revenues			
Gross written premiums and policy fees		49,965	53,817
Less premiums ceded to reinsurers		(5,683)	(5,844)
Net written premiums and policy fees		44,282	47,973
Net change in reserves for unearned premiums	11	1,227	(746)
Net earned premiums and policy fees		45,509	47,227
Farmers management fees and other related revenues	14	2,778	2,690
Net investment result on Group investments	6	8,289	5,792
Net investment income on Group investments		7,021	7,443
Net capital gains/(losses) and impairments on Group investments		1,268	(1,651)
Net investment result on unit-linked investments	6	10,093	12,475
Net gain/(loss) on divestments of businesses	5	38	(5)
Other income		1,416	1,822
Total revenues		68,124	70,002
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	11	38,591	38,304
Less ceded insurance benefits and losses	11	(4,106)	(3,201)
Insurance benefits and losses, net of reinsurance	11	34,484	35,103
Policyholder dividends and participation in profits, net of reinsurance	11	10,801	12,859
Underwriting and policy acquisition costs, net of reinsurance	11	8,636	8,403
Administrative and other operating expense	13	7,900	7,012
Interest expense on debt	22	728	767
Interest credited to policyholders and other interest		507	525
Total benefits, losses and expenses		63,057	64,669
Net income before income taxes		5,067	5,333
Income tax expense	21	(1,389)	(1,532)
attributable to policyholders	21	(462)	(387)
attributable to shareholders	21	(928)	(1,146)
Net income after taxes		**3,678**	3,801
attributable to non-controlling interests		110	68
attributable to shareholders		3,567	3,733

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

Consolidated financial statements *continued*

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments
Notes		
2009, as restated		
Comprehensive income for the year	3,733	3,371
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,589
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		932
Deferred income tax (before foreign currency translation effects)		(1,137)
Foreign currency translation effects		(13)
2010		
Comprehensive income for the year	3,567	2,087
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,072
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(588)
Deferred income tax (before foreign currency translation effects)		(517)
Foreign currency translation effects		119

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

Cash flow hedges	Cumulative foreign currency 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
7	1,192	(1)	173	4,741	8,474	150	8,624
119	1,192	(2)	290	5,188			
(96)	–	–	–	836			
(16)	–	–	(64)	(1,216)			
–	–	–	(53)	(67)			
65	(638)	28	(161)	1,380	4,948	24	4,972
(45)	(618)	41	(190)	2,259			
134	(20)	–	–	(474)			
(6)	–	(13)	51	(485)			
(18)	–	–	(22)	80			

Consolidated financial statements *continued*

Consolidated balance sheets

Assets

in USD millions, as of	Notes	12/31/10	Restated 12/31/09	Restated 01/01/09
Investments				
Total Group investments		196,846	195,344	179,903
Cash and cash equivalents		9,935	11,869	12,135
Equity securities		14,035	12,650	14,052
Debt securities		139,936	136,439	118,493
Real estate held for investment		8,274	7,789	7,524
Mortgage loans		10,032	10,472	10,715
Other loans		14,361	15,896	16,045
Equity method accounted investments		188	229	217
Holdings in related companies		86	–	721
Investments for unit-linked contracts		107,947	99,167	78,203
Total investments	6	304,794	294,510	258,106
Reinsurers' share of reserves for insurance contracts	8	18,809	18,751	18,778
Deposits made under assumed reinsurance contracts		2,832	3,861	2,397
Deferred policy acquisition costs	12	16,326	16,181	14,323
Deferred origination costs	12	866	856	770
Accrued investment income		2,758	2,753	2,441
Receivables	15	13,952	13,732	13,695
Other assets	19	3,661	3,276	4,075
Mortgage loans given as collateral	16	743	1,102	1,233
Deferred tax assets	21	2,059	2,417	3,178
Assets held for sale[1]		–	67	–
Property and equipment	17	1,687	1,939	1,885
Goodwill	18	2,104	2,297	1,677
Other intangible assets	18	5,952	7,035	6,620
Total assets		**376,545**	**368,777**	**329,178**

[1] Includes land and buildings formerly classified as held for own use.

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

Liabilities and equity

in USD millions, as of	Notes	12/31/10	Restated 12/31/09	Restated 01/01/09
Liabilities				
Reserve for premium refunds		518	649	620
Liabilities for investment contracts	9	50,667	46,124	35,979
Deposits received under ceded reinsurance contracts		1,362	1,558	1,619
Deferred front-end fees		5,626	5,543	4,695
Reserves for insurance contracts	8	242,646	242,094	224,078
Obligations to repurchase securities		3,330	3,976	3,608
Accrued liabilities		2,975	2,795	2,867
Other liabilities	20	16,650	15,481	15,992
Collateralized loans	16	743	1,102	1,233
Deferred tax liabilities	21	4,582	4,445	3,258
Debt related to capital markets	22	400	25	2,079
Senior and subordinated debt	22	13,534	15,971	14,097
Total liabilities		**343,033**	**339,764**	**310,127**
Equity				
Share capital	23	660	660	660
Additional paid-in capital	23	16,045	16,024	14,620
Net unrealized gains/(losses) on available-for-sale investments		2,444	357	(3,014)
Cash flow hedges		56	(9)	(16)
Cumulative foreign currency translation adjustment		(3,738)	(3,099)	(4,291)
Revaluation reserve		126	98	99
Retained earnings		16,349	12,938	8,801
Shareholders' equity		31,941	26,969	16,859
Non-controlling interests		1,570	2,045	2,192
Total equity		**33,512**	**29,014**	**19,051**
Total liabilities and equity		**376,545**	**368,777**	**329,178**

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

Consolidated financial statements *continued*

Consolidated statements of cash flows

in USD millions, for the year ended December 31	**2010**	Restated 2009
Cash flows from operating activities		
Net income attributable to shareholders	3,567	3,733
Adjustments for:		
Net (gain)/loss on divestments of businesses	(38)	5
Income from equity method accounted investments	(17)	(4)
Depreciation, amortization and impairments of fixed and intangible assets	1,077	882
Other non-cash items	746	800
Underwriting activities:	13,000	11,944
Reserves for insurance contracts, gross	*5,785*	*7,664*
Reinsurers' share of reserves for insurance contracts	*(13)*	*625*
Liabilities for investment contracts	*7,059*	*6,674*
Deferred policy acquisition costs	*(622)*	*(1,455)*
Deferred origination costs	*(23)*	*(16)*
Deposits made under assumed reinsurance contracts	*1,028*	*(1,453)*
Deposits received under ceded reinsurance contracts	*(214)*	*(97)*
Investments:	(17,137)	(18,796)
Net capital (gains)/losses on total investments and impairments	*(9,801)*	*(9,186)*
Net change in trading securities and derivatives	*(143)*	*(207)*
Net change in money market investments	*466*	*(231)*
Sales and maturities		
Debt securities	*94,649*	*222,019*
Equity securities	*57,864*	*52,272*
Other	*45,349*	*22,457*
Purchases		
Debt securities	*(103,187)*	*(230,613)*
Equity securities	*(56,960)*	*(52,855)*
Other	*(45,375)*	*(22,451)*
Proceeds from sale and repurchase agreements	(502)	(14)
Movements in receivables and payables	1,324	(72)
Net changes in debt for capital markets	375	(2,054)
Net changes in other operational assets and liabilities	48	1,038
Deferred income tax, net	260	750
Net cash provided by/(used in) operating activities	2,701	(1,788)

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

in USD millions, for the year ended December 31	2010	2009
Cash flows from investing activities		
Sales of property and equipment	117	86
Purchase of property and equipment	(182)	(360)
Disposal of equity method accounted investments, net	2	6
Acquisitions of companies, net of cash acquired	(48)	(307)
Divestments of companies, net of cash balances	(27)	(10)
Dividends from equity method accounted investments	3	5
Net cash used in investing activities	(135)	(581)
Cash flows from financing activities		
Dividends paid	(7)	(134)
Issuance of share capital		1,095
Transaction costs	(7)	
Issuance of debt	709	3,475
Repayments of debt outstanding	(3,205)	(2,134)
Net cash provided by/(used in) financing activities	(2,511)	2,302
Foreign currency translation effects on cash and cash equivalents	(176)	867
Change in cash and cash equivalents excluding change in cash held as collateral for securities lending	(120)	799
Cash and cash equivalents as of January 1, excluding cash held as collateral for securities lending	17,217	16,418
Cash and cash equivalents as of December 31, excluding cash held as collateral for securities lending	**17,097**	**17,217**
Change in cash held as collateral for securities lending	(493)	316
Cash and cash equivalents as of January 1, including cash held as collateral for securities lending	17,710	16,594
Cash and cash equivalents as of December 31, including cash held as collateral for securities lending	**17,097**	**17,710**
of which:		
– cash and cash equivalents – Group investments	9,935	11,869
– cash and cash equivalents – unit linked	7,163	5,840
Other supplementary cash flow disclosures		
Other interest income received	6,796	7,047
Dividend income received	1,668	1,683
Other interest expense paid	(1,325)	(1,402)
Income tax paid	(1,340)	(985)

As of December 31, 2010 and 2009, cash and cash equivalents held to meet local regulatory requirements were USD 1,238 million and USD 1,678 million, respectively.

Cash and cash equivalents

in USD millions, as of December 31	2010	2009
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	7,264	7,266
Cash equivalents	9,834	9,951
Cash held as collateral for securities lending	–	493
Total	**17,097**	**17,710**

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

Consolidated financial statements *continued*

Consolidated statements of changes in equity

in USD millions	Share capital	Additional paid-in capital
Balance as of December 31, 2008, as previously reported	660	14,620
Total adjustments due to restatement	–	–
Balance as of December 31, 2008, as restated	660	14,620
Capital injection	–	1,095
Dividends to shareholders	–	–
Share-based payment transactions	–	308
Transaction under common control	–	–
Total comprehensive income for the year, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization and non-controlling interests	–	–
Balance as of December 31, 2009	660	16,024
Balance as of December 31, 2009, as previously reported	660	16,024
Total adjustments due to restatement	–	–
Balance as of December 31, 2009, as restated	660	16,024
Transaction costs	–	(7)
Dividends to shareholders	–	–
Share-based payment transactions	–	28
Transactions with no loss of control	–	–
Total comprehensive income for the year, net of tax	–	–
Net income	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–
Cash flow hedges	–	–
Cumulative foreign currency translation adjustment	–	–
Revaluation reserve	–	–
Net actuarial gains/(losses) on pension plans	–	–
Net changes in capitalization and non-controlling interests	–	–
Balance as of December 31, 2010	**660**	**16,045**

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

	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	(2,948)	(16)	(4,291)	99	9,975	18,100	2,192	20,292
	(66)	–	–	–	(1,174)	(1,241)	–	(1,241)
	(3,014)	(16)	(4,291)	99	8,801	16,859	2,192	19,051
	–	–	–	–	–	1,095	–	1,095
	–	–	–	–	(113)	(113)	(21)	(134)
	–	–	–	–	133	441	–	441
	–	–	–	–	211	211	–	211
	3,371	7	1,192	(1)	3,906	8,474	150	8,624
	–	–	–	–	*3,733*	*3,733*		
	3,371	–	–	–	–	*3,371*		
	–	*7*	–	–	–	*7*		
	–	–	*1,192*	–	–	*1,192*		
	–	–	–	*(1)*	–	*(1)*		
	–	–	–	–	*173*	*173*	–	–
	–	–	–	–	–	–	(277)	(277)
	357	(9)	(3,099)	98	12,938	26,969	2,045	29,014
	304	(9)	(3,099)	98	13,365	27,343	2,045	29,388
	53	–	–	–	(427)	(374)	–	(374)
	357	(9)	(3,099)	98	12,938	26,969	2,045	29,014
	–	–	–	–	–	(7)	–	(7)
	–	–	–	–	–	–	(7)	(7)
	–	–	–	–	–	28	–	28
	–	–	–	–	4	4	–	4
	2,087	65	(638)	28	3,407	4,948	24	4,972
	–	–	–	–	*3,567*	*3,567*		
	2,087	–	–	–	–	*2,087*		
	–	*65*	–	–	–	*65*		
	–	–	*(638)*	–	–	*(638)*		
	–	–	–	*28*	–	*28*		
	–	–	–	–	*(161)*	*(161)*	–	–
	–	–	–	–	–	–	(491)	(491)
	2,444	**56**	**(3,738)**	**126**	**16,349**	**31,941**	**1,570**	**33,512**

Consolidated financial statements *continued*

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

The holding company Zurich Insurance Company Ltd, is incorporated in Zurich, Switzerland. The address of the registered office is Mythenquai 2, 8002 Zurich, Switzerland. Zurich Insurance Company Ltd is a wholly owned subsidiary of Zurich Financial Services Ltd and together with its subsidiaries forms part of the Zurich Financial Services Group.

On March 30, 2011 the Board of Directors of Zurich Insurance Company Ltd authorized these Consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on March 31, 2011.

1. Basis of presentation

General information

The Consolidated financial statements of the Zurich Insurance Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. Where IFRS does not contain clear guidance governing the accounting treatment of certain transactions including those that are specific to insurance and reinsurance products, IFRS permits reference to another comprehensive body of accounting principles that uses a similar conceptual framework. The Zurich Insurance Group's accounting policies for insurance and reinsurance contracts are therefore based on those developed by the Zurich Insurance Group before the adoption of IFRS 4 in areas where IFRS 4 did not include specific requirements. Before the time of adoption, the Zurich Insurance Group typically considered U.S. GAAP pronouncements issued by the Financial Accounting Standards Board (FASB) on insurance and reinsurance contracts. In certain cases the Zurich Insurance Group may decide to maintain the local statutory treatment if this does not distort a fair presentation of the financial position of the Zurich Insurance 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 Zurich Insurance Group. The Zurich Insurance 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 14 to 45, and they form an integral part of the Consolidated financial statements.

Significant subsidiaries included in the scope of consolidation are disclosed on pages 156 to 158.

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 Zurich Insurance Group erroneously classified certain life insurance products. The classification was corrected in the current year as the impact on the Zurich Insurance Group's income statement was not material. The reclassifications in the balance sheet from reserves for unearned premiums, reserves for policyholders' contract deposits and other funds, and liabilities related to investment contracts with discretionary participation features (DPF) to reserves for future life policyholders' benefits and liabilities related to unit-linked investment contracts are shown in notes 8 and 9.

Reserves for premium rebates previously reported as reserves for premium refunds amounting to USD 94 million as of December 31, 2009, are now presented as deferred front-end fees to better reflect the nature of the underlying transactions. The classification was corrected in the current year as the impact on the Zurich Insurance Group's income statement was not material.

Certain balances previously reported under cash and cash equivalents amounting to USD 1,671 million as of December 31, 2009, are now presented, depending on their nature and measurement basis, under debt securities - available-for-sale, equity securities - available-for-sale, other loans and receivables. These changes in presentation are reflected in the consolidated balance sheets, consolidated statements of cash flows and notes 6 and 22.

Premium taxes erroneously reported under Administrative and other operating expense amounting to USD 149 million as of December 31, 2009, are now presented under Underwriting and policy acquisition costs in order to ensure consistency with the treatment of other related items.

The Zurich Insurance 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, deferred policy acquisition costs on general insurance contracts, accrued investment income, receivables, reserve for premium refunds, obligations to repurchase securities and accrued liabilities.

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

The following balances are mixed in nature (including both current and non-current portions): debt securities, mortgage loans, other loans, reinsurers' share of reserves for insurance contracts, deposits made under assumed reinsurance contracts, 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, deferred front-end fees, 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 senior and subordinated debt.

Maturity tables have been provided for the following balances: reserves for insurance contracts (tables 17a and 17b in the "Risk Review"), liabilities for investment contracts (tables 18a and 18b in the "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, unless otherwise stated, are shown in USD, rounded to the nearest million 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 139 million and USD (49) million for the years ended December 31, 2010 and 2009, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (12) million and USD 133 million for the years ended December 31, 2010 and 2009, respectively.

Table 1

Principal exchange rates

USD per foreign currency unit	Balance sheets		Income statements and cash flows	
	12/31/2010	12/31/2009	**2010**	2009
Euro	1.3391	1.4333	1.3272	1.3935
Swiss franc	1.0707	0.9649	0.9617	0.9232
British pound	1.5596	1.6164	1.5459	1.5650

Consolidated financial statements *continued*

Change in accounting policies in 2010

The Zurich Insurance Group decided to dynamically hedge the risks associated with its closed U.S. life book included in its Non-Core Businesses segment, starting in March 2010. In order to offset the accounting volatility from the fair valuation of the hedge, the Zurich Insurance Group concluded that it should measure the underlying insurance liabilities in this book of business at current value and as a consequence has changed its accounting policy for this closed U.S. life book by exercising the option in IFRS 4 to remeasure designated insurance liabilities using current financial and non-financial assumptions. All financial assets, which were previously designated as available-for-sale, related to these insurance liabilities have therefore also been redesignated at fair value through profit or loss. As a consequence of this change in accounting policy, prior year figures have been restated to ensure comparability. Business operating profit (BOP) has not been restated, as the business was not managed on a fair value basis, prior to the implementation of the dynamic hedge and therefore to restate BOP would not be a fair reflection of a sustainable operating profit nor provide comparability with the previous period.

Restatement and reclassifications of consolidated income statement

Table 1.1

in USD millions, for the year ended December 31, 2009	As reported	Change in accounting policy	Other restatements	As restated
Revenues				
Gross written premiums and policy fees	53,817	–	–	53,817
Less premiums ceded to reinsurers	(5,844)	–	–	(5,844)
Net written premiums and policy fees	47,973	–	–	47,973
Net change in reserves for unearned premiums	(746)	–	–	(746)
Net earned premiums and policy fees	47,227	–	–	47,227
Farmers management fees and other related revenues	2,690	–	–	2,690
Net investment result on Group investments	5,945	(153)	–	5,792
Net investment income on Group investments	7,443	–	–	7,443
Net capital gains/(losses) and impairments on Group investments	(1,498)	(153)	–	(1,651)
Net investment result on unit-linked investments	12,475	–	–	12,475
Net gain/(loss) on divestments of businesses	(5)	–	–	(5)
Other income	1,822	–	–	1,822
Total revenues	70,156	(153)	–	70,002
Benefits, losses and expenses				
Insurance benefits and losses, gross of reinsurance	39,522	(1,217)	–	38,304
Less ceded insurance benefits and losses	(3,261)	59	–	(3,201)
Insurance benefits and losses, net of reinsurance	36,261	(1,158)	–	35,103
Policyholder dividends and participation in profits, net of reinsurance	12,859	–	–	12,859
Underwriting and policy acquisition costs, net of reinsurance	8,254	–	149	8,403
Administrative and other operating expense	7,162	(1)	(149)	7,012
Interest expense on debt	767	–	–	767
Interest credited to policyholders and other interest	525	–	–	525
Total benefits, losses and expenses	65,828	(1,159)	–	64,669
Net income before income taxes	4,328	1,006	–	5,333
Income tax expense	(1,274)	(258)	–	(1,532)
attributable to policyholders	(387)	–	–	(387)
attributable to shareholders	(887)	(258)	–	(1,146)
Net income after taxes	**3,054**	**747**	**–**	**3,801**
attributable to non-controlling interests	68	–	–	68
attributable to shareholders	2,985	747	–	3,733

Restatement of consolidated balance sheet

Table 1.2

in USD millions, as of December 31, 2009	As reported	Change in accounting policy	Other restatements	As restated
Investments				
Total Group investments	195,943	–	(600)	195,344
Cash and cash equivalents	13,540	–	(1,671)	11,869
Equity securities	12,519	–	131	12,650
Debt securities	136,059	–	380	136,439
Real estate held for investment	7,789	–	–	7,789
Mortgage loans	10,472	–	–	10,472
Other loans	15,335	–	561	15,896
Equity method accounted investments	229	–	–	229
Investments for unit-linked contracts	99,167	–	–	99,167
Total investments	295,110	–	(600)	294,510
Reinsurers' share of reserves for insurance contracts	18,627	124	–	18,751
Deposits made under assumed reinsurance contracts	3,861	–	–	3,861
Deferred policy acquisition costs	16,181	–	–	16,181
Deferred origination costs	856	–	–	856
Accrued investment income	2,753	–	–	2,753
Receivables	13,131	–	600	13,732
Other assets	3,276	–	–	3,276
Mortgage loans given as collateral	1,102	–	–	1,102
Deferred tax assets	2,253	164	–	2,417
Assets held for sale	67	–	–	67
Property and equipment	1,939	–	–	1,939
Goodwill	2,297	–	–	2,297
Other intangible assets	7,035	–	–	7,035
Total assets	**368,489**	**288**	**–**	**368,777**
Liabilities				
Reserve for premium refunds	649	–	–	649
Liabilities for investment contracts	46,124	–	–	46,124
Deposits received under ceded reinsurance contracts	1,558	–	–	1,558
Deferred front-end fees	5,543	–	–	5,543
Reserves for insurance contracts	241,412	682	–	242,094
Obligations to repurchase securities	3,976	–	–	3,976
Accrued liabilities	2,795	–	–	2,795
Other liabilities	15,481	–	–	15,481
Collateralized loans	1,102	–	–	1,102
Deferred tax liabilities	4,464	(20)	–	4,445
Debt related to capital markets	25	–	–	25
Senior and subordinated debt	15,971	–	–	15,971
Total liabilities	**339,101**	**662**	**–**	**339,764**
Equity				
Shareholders' equity	27,343	(374)[1]	–	26,969
Non-controlling interests	2,045	–	–	2,045
Total equity	**29,388**	**(374)**	**–**	**29,014**
Total liabilities and equity	**368,489**	**288**	**–**	**368,777**

[1] Of the USD (374) million restatement of total equity, USD 867 million relates to 2009, and USD (1,241) million relates to 2008 and prior years.

Consolidated financial statements *continued*

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early adopted as of January 1, 2010 and relevant for the Zurich Insurance Group's operations

The following new accounting standards or amendments to and interpretations of standards relevant to the Zurich Insurance Group have been implemented for the financial year beginning January 1, 2010 with no material impact on the Zurich Insurance Group's financial position or performance.

In January 2008, the International Accounting Standards Board (IASB) issued the revised IFRS 3 "Business Combinations". The standard is effective for reporting periods beginning on or after July 1, 2009. 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. The standard permits advice to be made in respect of each acquisition to measure the non-controlling interests in the acquiree either at fair value or at the non-controlling interests' 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, International Financial Reporting Interpretations Committee (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 Zurich Insurance Group entity or shareholder has the obligation to settle the share-based payment award.

In November 2009, the IASB issued IFRIC Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments' which clarifies the accounting when the terms of a financial liability are renegotiated and result in the issue of equity instruments by an entity to settle, in full or in part, that financial liability. The interpretation is effective for annual periods beginning on or after July 1, 2010 with earlier application being permitted.

Standards, amendments and interpretations issued that are not yet effective nor yet adopted by the Zurich Insurance Group

The following standards, amendments and interpretations of existing published standards are not yet effective but are relevant to the Zurich Insurance Group's operations. The Zurich Insurance Group is currently evaluating the impact of adopting these standards, amendments and interpretations, but is not expecting a significant impact, unless otherwise stated.

In October 2009, the IASB issued amendments to IAS 32 "Classification of Rights Issues". The amendments will be 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 will be 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, as part of the phased project to replace IAS 39 "Financial Instruments: Recognition and Measurement", the IASB issued IFRS 9 "Financial Instruments" which reconsiders the classification and measurement of financial assets. Under the new requirements, 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 cost 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). In October 2010, the IASB completed the first phase of IFRS 9 "Financial Instruments" by carrying forward unchanged most of the requirements in IAS 39 regarding the classification and measurement of financial liabilities. The requirements related to the fair value option for financial liabilities were amended insofar as the effects of changes in a liability's credit risk will be recorded in OCI rather than through the income statement, unless this presentation creates an accounting mismatch. Also, the IASB has carried forward to IFRS 9 the existing IAS 39 requirements related to the derecognition of financial assets and financial liabilities. IFRS 9 will be effective for reporting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Zurich Insurance 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. Changes to the IFRS timetable may have an impact on this approach.

While the accounting treatment for transferred assets is unchanged (see IFRS 9 above), in October 2010, the IASB amended IFRS 7 "Financial Instruments: Disclosures" to include additional disclosure requirements regarding transfers of assets (for example, securities sold under repurchase agreements or securities lending transactions) with the aim of increasing the transparency in the risk exposures relating to such transferred assets. The amendment will be effective for annual periods beginning on or after July 1, 2011.

In May 2010, the IASB issued amendments to IFRS resulting from the IASB's annual improvement project. These amendments will be effective for annual periods beginning on or after January 1, 2011. The amendments primarily comprise clarification to presentation, disclosure and measurement provisions related to a several IFRS standards.

In December 2010, the IASB issued amendments to IAS 12 "Income Taxes". The amendments will be effective for reporting periods beginning on or after January 1, 2012. The amendments provide a practical approach for measuring deferred taxes when investment property is measured using the fair value model.

Consolidated financial statements *continued*

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 Zurich Insurance Group's Consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Company Ltd and its subsidiaries. A subsidiary is an entity in which Zurich Insurance Company 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 Zurich Insurance Group. Effects of transactions with non-controlling interests are recorded in equity if there is no change in control.

Investments in associates and partnerships where the Zurich Insurance 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 Zurich Insurance 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, including attributable goodwill, and adjusted thereafter for the post-acquisition change in the Zurich Insurance 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 Zurich Insurance Group's Consolidated financial statements are not material.

b) Foreign currency translation and transactions

Foreign currency translation

In view of the international operations of the Zurich Insurance 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 Zurich Insurance Group's economic exposure to the U.S. dollar (USD), the presentation currency of the Zurich Insurance Group has been determined to be the USD. Assets and liabilities of the Zurich Insurance Group companies with functional currencies other than USD are translated into the presentation currency at end-of-period exchange rates, while income statements and statements of cash flows are translated at average exchange rates for the period. The resulting translation differences are recorded directly in OCI 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-ofperiod 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 OCI, any foreign currency component of that gain or loss is also recognized directly in OCI;

- 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 in 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 OCI; and

- foreign currency translation differences arising on monetary items that form part of net investments in foreign operations are recognized directly in OCI as cumulative translation adjustments.

- 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 OCI as cumulative translation adjustments.

Equity method accounted investments are translated at the end-of-period exchange rates, with any foreign currency translation differences recorded directly in OCI as cumulative translation adjustments.

c) Common control business combination

A business combination of entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations between entities under common control are accounted for by applying the pooling of interest method. The acquirer (entity that receives the net assets or the equity interest) initially recognizes the assets and liabilities transferred at their previous carrying amounts in the accounts of the transferor at the date of transfer. Any difference between the consideration paid and the carrying value of the net assets received is recorded in shareholders' equity. Such business combinations are recorded as if they had taken place at the beginning of the earliest period presented (or the date that the entities were first under common control, if later), for the purpose of including the result of the transferee in the retained earnings of the acquirer.

d) Insurance contracts and investment contracts with discretionary participating features (DPF)

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 are those that have commercial substance.

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 Zurich Insurance 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 Zurich Insurance 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 intangibles.

The Zurich Insurance 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 Zurich Insurance Group. Where this results in the reclassification of an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are also reclassified and are accounted for in accordance with the accounting policies for the new product 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.

Consolidated financial statements *continued*

Premiums

General insurance

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.

Life insurance

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 insurance 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 deferred and recognized over the estimated life of the contracts.

Cash flows from certain universal life-type contracts in the Zurich Insurance Group's Spanish operations are recognized as gross written premiums and insurance benefits and losses instead of deposits.

Reserves for losses and loss adjustment expenses

Losses and loss adjustment expenses are charged to income as incurred. Reserves for losses and loss adjustment expenses represent 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 Zurich Insurance 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.

Reserves for life benefits

Future life policyholders' benefits represent the estimated future benefit liability for traditional life insurance policies.

The reserves for life 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.

The reserves for life benefits for other traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions including mortality, persistency, expenses and investment return 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 estimated policy benefits for investment type insurance contracts invested in non unit-linked funds. This liability comprises 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 OCI in accordance with the Zurich Insurance Group's accounting policy for such assets, with the corresponding adjustments to the reserves for life benefits and related assets also recognized directly in OCI.

The policyholders' share of unrealized gains or losses, which may be paid in the future, in respect of assets, is included in the reserves for life benefits.

Reserves for unit-linked contracts represent the estimated policy benefits for investment type insurance contracts invested in unit-linked funds. This liability is 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.

For products managed on a dynamic basis, the option in IFRS 4 to measure the insurance liabilities using current financial and non financial assumptions is used, to better reflect the way these products are managed. Financial assets relating to these liabilities are designated as "fair value through profit or loss".

Discretionary participation features (DPF)

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 OCI until such time as the discretionary element of a bonus is determined and declared.

Deferred policy acquisition costs (DAC)

Costs that vary with and are directly related to the acquisition of new and renewal business, including for example commissions and underwriting and policy issue expenses, are deferred and subsequently amortized over a defined period. 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.

Unamortized DAC associated with internally replaced contracts that are, in substance, contract modifications continues to be deferred and amortized. Unamortized DAC associated with internally replaced contracts that are, in substance, new contracts is written down at the time of replacement.

General insurance

DAC for general insurance contracts is amortized over the period in which the related premiums written are earned.

Life insurance

DAC for traditional participating life insurance contracts is amortized over the 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 actual and anticipated future experience using the latest revised interest rate for the remaining benefit period. Resultant deviations are reflected in income.

DAC for other traditional life insurance and annuity contracts is amortized over the life of the contracts based on expected premiums. Expected premiums are estimated at the date of policy issue for application throughout the life of the contract, unless premium deficiency occurs.

DAC for investment type insurance contracts such as universal life, unit-linked and unitized with-profits contracts is amortized over the 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 actual and anticipated future experience using either the rate in effect at the inception of the contracts or the latest revised interest rate for the remaining benefit period, depending on whether crediting is based on the policyholder's or on the reporting entity's investment performance. Resultant deviations are reflected in income.

Unamortized DAC for life insurance contracts accrues interest at a rate consistent with the related assumptions for reserves.

For traditional participating and investment type life insurance contracts the DAC asset is adjusted for the impact of unrealized gains/(losses) on allocated investments that are recorded in OCI (shadow accounting).

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Liability adequacy tests

Liability adequacy testing is performed annually for groupings of contracts determined in accordance with the Zurich Insurance Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

General insurance

For general insurance contracts, unearned premiums are tested to determine whether they are sufficient to cover related expected losses, loss adjustment expenses, policyholder dividends, unamortized DAC and maintenance expenses using current assumptions and considering anticipated investment returns. If a premium deficiency is identified, the DAC asset for the respective grouping of contracts is written down by the amount of the deficiency. If, after writing down the DAC asset to nil, a premium deficiency still exists for the respective grouping of contracts, then a premium deficiency reserve is established for the amount of the remaining deficiency.

Life insurance

For life insurance contracts, the carrying amount of the existing reserve for life benefits, including any deferred front-end fees, reduced by the unamortized balance of DAC or present value of future profits of acquired insurance contracts (PVFP), is compared with the reserve for life benefits, calculated using revised assumptions for actual and anticipated experience as of the valuation date. If a deficiency is identified, the DAC or PVFP for the respective grouping of contracts is written down by the amount of the deficiency. If, after writing down the DAC or PVFP to nil, a deficiency still exists for the respective grouping of contracts, the reserve for life benefits is increased by the amount of the remaining deficiency.

Reinsurance

The Zurich Insurance 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 Zurich Insurance Group insurance companies assume reinsurance business incidental to their normal business, as well as from the Farmers Exchanges.

Reinsurance contracts that do not transfer significant insurance risk are accounted for using the deposit method. A deposit asset or liability is recognized based on the premium paid or received less any explicitly identified premiums or fees to be retained by the ceding company. Interest on deposits is accounted for using the effective interest rate method. Future cash flows are estimated to calculate the effective yield and revenue and expense are recorded as interest income or expense. Reinsurance deposit assets or liabilities also include funds deposited or held by the Zurich Insurance Group, respectively under assumed or ceded reinsurance contracts, when funds are retained under the terms of the contract.

Reinsurance assets include balances expected to be recovered from reinsurance companies for ceded paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the liability associated with the reinsured policy. Reinsurance is recorded gross in the consolidated balance sheet.

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 or changes in credit ratings of a counterparty, and historical experience regarding collectibility from specific reinsurers. An impairment is considered to have occurred if it is probable that the Zurich Insurance Group will not be able to collect the amounts expected from reinsurers. If there is objective evidence that a reinsurance asset is impaired, the carrying amount of the asset is reduced to its recoverable amount, through the use of an allowance account, and the amount of the impairment loss is recognized in income. If a decrease in the impairment loss can be related objectively to an event occurring after the impairment loss was initially recognized, the impairment loss is reversed through income.

Premiums paid under retroactive contracts are included in reinsurance recoverables in the balance sheet. If the amount of gross liabilities reinsured is higher than the premium paid, reinsurance recoverables are increased by the difference and the resulting gain is deferred and amortized over the expected settlement period. If the amount of gross liabilities reinsured is lower than the premium paid, reinsurance recoverables are reduced by the difference and the resulting loss is recognized in income immediately.

e) Liabilities for investment contracts (without DPF)

The Zurich Insurance Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Unit-linked investment contracts

These represent portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks related to the investments. The liabilities are carried at fair value, with fair value being determined by reference to the underlying financial assets. The related assets for unit-linked investment contracts are classified as designated at fair value through profit or loss in order to reduce measurement inconsistencies. 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.

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.

Investment contracts at amortized cost

Liabilities for investment contracts with fixed and guaranteed terms are measured at amortized cost, using the effective interest rate method. Transaction costs are deducted from the initial amount and form part of the effective yield.

As of each reporting date, the Zurich Insurance Group re-estimates the expected future cash flows and re-calculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the original effective interest rate for the financial liability. Any adjustment is immediately recognized as income or expense.

Deferred origination costs (DOC)

The costs of acquiring new investment contracts with investment management services, such as commissions and other incremental expenses directly related to the issuance of each new contract, 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.

f) Non-derivative investments

Investments includes non-derivative financial assets, cash and cash equivalents and real estate held for investment.

Categories and measurement of non-derivative investments

Non-derivative financial assets are classified as available for sale, financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Management determines the classification of these investments at initial recognition, depending on the purpose for which the investments were acquired.

All financial assets are initially recognized at fair value plus, in the case of financial assets not carried at fair value through profit or loss, incremental transaction costs that are directly attributable to their acquisition.

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

Available-for-sale financial assets

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.

Available-for-sale financial assets are carried at fair value, with changes in fair value recognized directly in OCI, until the securities are either sold or impaired.

The cumulative unrealized gains or losses recorded in OCI are net of cumulative deferred income taxes, certain related life policyholder liabilities and deferred acquisition costs. When available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains or losses are recycled from OCI and recognized in income.

Financial assets at fair value through profit or loss

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.

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Financial assets held for trading are debt and equity securities which the Zurich Insurance Group buys with the principal intention to resell in the near term.

Financial assets irrevocably designated at inception at fair value through profit or loss are mainly financial assets backing unit-linked insurance contracts, unit-linked investment contracts and certain life insurance contracts with participation features. 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.

Financial assets at fair value through profit or loss are carried 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.

Held-to-maturity investments
Held-to-maturity investments 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 Zurich Insurance Group has the positive intention and ability to hold to maturity.

Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any charges for impairment.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not classified in any of the other categories. Loans and receivables include loans where money is provided directly to the borrower, such as mortgage loans, policyholder loans and other loans.

Loans and receivables are carried at amortized cost using the effective interest rate method, less any charges for impairment.

Other items
Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments that are readily convertible into cash and are subject to an insignificant risk of change in fair value, for example, short-term investments with maturities of three months or less from the date of acquisition. 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. The gain or loss on disposal of real estate held for investment is the difference between the net proceeds received and the carrying amount of the investment and is recognized in the income statement when the disposal is completed.

Impairment of non-derivative financial assets

General
A financial asset or group of financial assets is impaired if there is objective evidence of impairment 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. The Zurich Insurance Group assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. Such evidence includes observable data that comes to the attention of the Zurich Insurance 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 relating to the assets in that group.

Available-for-sale financial assets
When there is objective evidence that an available-for-sale debt security is impaired, the cumulative loss that had been recognized directly in OCI is recognized in income as an impairment loss. The impairment loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that security previously recognized in income. If the fair value of a debt security 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, up to the amount of the previously recognized impairment loss, as adjusted for any amortization already recognized in income. Any further gains are recognized directly in OCI. Any subsequent losses, to the extent that they do not represent impairment losses, are also recognized in OCI.

Objective evidence of impairment exists for an available-for-sale equity security when its fair value 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 Zurich Insurance Group invests (such as North America, UK, Switzerland, Rest of Continental Europe, Asia Pacific). Additionally, the Zurich Insurance Group considers an equity security to be impaired when its fair value has been below the weighted-average cost for a prolonged period of 24 consecutive months or longer.

When there is objective evidence that an available-for-sale equity security is impaired, the cumulative loss that had been recognized directly in OCI, including any portion attributable to foreign currency changes, is recognized in income as an impairment loss. The impairment loss is the difference between the weighted-average acquisition cost and current fair value, less any impairment loss on that security previously recognized in income. Impairment losses on equity securities are not reversed through income, instead, when the fair value of a previously impaired equity security increases, the resulting unrealized gains will be recognized through OCI. Any further decrease in fair value recorded subsequent to recognition of an impairment loss is also reclassified from OCI to income as impairment losses, together with any portion attributable to foreign currency changes, until the equity security is derecognized.

Held-to-maturity investments and loans and receivables
Generally, significant held-to-maturity financial assets are individually assessed to determine whether or not objective evidence of impairment exists. If no objective evidence of impairment exists the asset is included in a group of financial assets with similar credit risk characteristics that are collectively assessed for impairment.

Objective evidence of impairment exists if it is probable that the Zurich Insurance 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 investments, 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 allowance of financial assets carried at amortized cost is measured as the difference between the amortized cost of the assets and the present value of estimated future cash flows, calculated using the original effective interest rate, for fixed rate financial assets, or current effective interest rate, for variable rate financial assets. The impairment allowance 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. The amount of reversal is limited so that it does not result in a carrying amount exceeding what the amortized cost would have been at the date of reversal had the impairment not been previously recognized.

g) Derivative financial instruments and hedge accounting
Derivative financial instruments held by the Zurich Insurance 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

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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 Zurich Insurance 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 measured and presented 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

Derivatives are used by the Zurich Insurance Group to economically hedge risks. In limited circumstances derivatives are designated as hedging instruments for accounting purposes:

- 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. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed in order to determine whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. 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

The effective portion of the gain or loss on the re-measurement of the cash flow hedging instrument is recognized directly in OCI. The ineffective portion is recognized immediately in income. The accumulated gains and losses on the hedged instrument in OCI are reclassified to income in the same period in which gains or losses on the item hedged are recognized in income.

Where hedge accounting is applied, the Zurich Insurance Group formally documents all relationships between hedging instruments and hedged items, including the risk management objectives and strategy for undertaking hedge transactions.

h) 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 borrowing using the effective interest rate method.

Preference shares, which are mandatorily redeemable or can be put back for redemption at the option of the holder on a specific or determinable date are classified as liabilities. Dividends on these preference shares are recognized in income as interest expense.

When fair value hedge accounting is applied to borrowings, the carrying values of the borrowings are adjusted for changes in fair values related to the hedged exposure.

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) 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 Zurich Insurance 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, cancelled or has expired.

Securities lending
Certain entities within the Zurich Insurance 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 Zurich Insurance Group retains substantially all the risks and rewards of ownership of these loaned securities, and also retains contractual rights to the cash flows therefrom. These securities are therefore not derecognized from the Zurich Insurance Group's balance sheet. Cash received as collateral for loaned securities is recorded as an asset and a corresponding liability is established.

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 accounted for as collateralized financing transactions.

The securities delivered under a 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.

Under a reverse repurchase agreement, the securities received are not recognized on the balance sheet, as long as the risk and rewards of ownership have not been obtained by the Zurich Insurance Group. The cash delivered is derecognized and a corresponding receivable is recorded and reported within "Other Receivables". Interest income is recognized in income using the effective interest rate method over the life of the agreement.

In cases such as 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 Zurich Insurance Group. At such point in time, the securities held under the reverse repurchase agreement would be recognized on the balance sheet at fair value and the original receivable as collateral derecognized. Any shortfall is recorded as a loss in income.

k) Property and equipment
Own use property is defined as property held by the Zurich Insurance 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

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- 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 cash generating unit (CGU) level if the recoverable amount cannot be separately determined.

l) Intangible assets

Intangible assets include goodwill, present value of future profits from acquired insurance contracts (PVFP), attorney-in-fact relationships (AIF), distribution agreements and other intangible assets, such as customer relationships and contracts, affinity partnerships, 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.

The useful lives of customer relationships and contracts, affinity partnerships extend up to 30 years and are estimated based on the period of time over which they are expected to provide economic benefits after 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.

Other intangible assets with definite 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 at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Other intangible assets with indefinite 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.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Zurich Insurance Group's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date. Goodwill on the acquisition of subsidiaries is included in the balance sheet as a separate line. Goodwill on acquisition of associates is included in the value of equity method accounted investments 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 CGU), and that is largely independent of the cash inflows of other assets or groups of assets. The Zurich Insurance 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. The fair value less costs to sell is based on the best information available to reflect the amount that the Zurich Insurance 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.

Present value of future profits from acquired insurance contracts (PVFP)
An intangible asset representing the PVFP arises from the acquisition of life insurance businesses. Such asset have a definite life and are amortized over the expected life of the acquired contracts, following the same rules outlined for deferred acquisition costs. The carrying value of the PVFP asset is tested periodically for impairment as part of the liability adequacy test for insurance contracts.

Attorney-in-fact relationships (AIF)
The AIF reflects the ability of the Zurich Insurance Group to generate future revenues based on the Zurich Insurance Group's relationship with the Farmers Exchanges, which are managed but not owned by Farmers Group Inc. (FGI), a wholly owned subsidiary of the Zurich Financial Services Group. In determining that these relationships have an indefinite useful life, the Zurich Insurance 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.

Distribution agreements
Distribution agreements are either entered into separately for a consideration or are acquired in a business combination. The useful lives may extend up to 30 years and are estimated based on the period of time over which they are expected to provide economic benefits, after taking into account all economic and legal factors such as stability of the industry, competitive position and the period of control over the assets. They are amortized using the straight-line method over their useful lives and reviewed for impairments at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Software
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 resources 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 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.

m) Provisions, contingent liabilities, commitments and financial guarantees
Provisions, contingent liabilities, commitments and financial guarantees are recognized when the Zurich Insurance 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.

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Restructuring provisions comprise employee termination costs and costs related to onerous contracts. Restructuring provisions are recognized when the Zurich Insurance 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.

n) Treasury shares

Zurich Financial Services Ltd shares and preferred securities classified as equity instruments held by the Zurich Insurance Group are classified as treasury shares and are deducted from shareholders' equity, net of transaction costs and tax. The nominal value of treasury shares is deducted from share capital. The difference between the nominal value and the amount paid to acquire the treasury shares, is allocated between additional paid-in capital and retained earnings. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of treasury shares.

o) Other revenue recognition

Farmers management fees

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.

Other fees and commission income

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 Zurich Insurance Group recognizes these fees on a straight-line basis over the estimated life of the contract.

The Zurich Insurance Group charges its customers for asset management and other related services using the following 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.

p) Net investment income

Net investment income includes investment income earned and investment expenses incurred.

Investment income

Investment income primarily consists of interest income on debt securities, loans and receivables, dividend income on equity securities, rental income from real estate held for investment and income earned on equity method accounted investments.

Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date.

For Zurich Insurance Group investments, interest income is recognized using the effective interest method. Interest income on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Rental income from real estate held for investment is recognized on an accrual basis.

Investment expenses

Investment expenses consist of operating expenses for real estate held for investment and other investment expenses. These expenses are recognized on an accrual basis.

q) Employee benefits

Share-based compensation and cash incentive plans

Share based compensation plans include plans under which shares and options to purchase shares of Zurich Financial Services Ltd (the ultimate parent of the Zurich Insurance Group), based on the performance of the businesses, are awarded by Zurich Financial Services Ltd directly to employees of entities within the Zurich Insurance Group.

Under the 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 Zurich Insurance 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 OCI. However, no subsequent adjustment to total OCI 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 cash-settled share-based payment compensation plan, participants are allowed to take their option award in the form of Share Appreciation Rights (SAR). Hence, the Zurich Insurance Group incurs a liability which is measured at the fair value of the SAR. As the fair value of the options which the Zurich Insurance Group uses for its employee schemes cannot be compared with those in the market, the Zurich Insurance 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.

Retirement benefits

Operating companies in the Zurich Insurance 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 Zurich Insurance Group's assets in trustee-administered funds. Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Zurich Insurance 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 consolidated 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 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) Leases

The Zurich Insurance Group enters into lease contracts, predominantly of property and equipment, as a lessor and a lessee. The terms and conditions of these contracts are assessed and the leases are classified as operating leases or finance leases according to their economic substance. 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 of the underlying asset are retained by the lessor are classified as operating leases.

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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.

Finance leases, where the Zurich Insurance Group is the lessee, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in income. Contingent rents are recognized as expenses in the period in which they are incurred.

s) Income taxes

The Zurich Insurance 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 the Zurich Insurance Group's life insurance businesses are based on the investment result less allowable expenses. To the extent these taxes exceed the amount that would have been payable in relation to the shareholders' share of taxable profits, it is normal practice for certain of the Zurich Insurance Group's businesses to recover this portion from policyholders. While the relevant company has the contractual right to charge policyholders for the taxes attributable to their share of the investment result less expenses, the obligation to pay the tax authority rests with the company and therefore, the full amount of tax including the portion attributable to policyholders is accounted for as income tax. Income tax expense therefore includes an element attributable to policyholders. 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.

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, employee benefits 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 Zurich Insurance Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the Zurich Insurance 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 Zurich Insurance Group establishes its reserves by product line, type and extent of coverage and year of occurrence. There are two categories of loss reserve: reserves for reported losses and reserves for IBNR ('incurred but not yet reported') 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 Zurich Insurance 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 Zurich Insurance Group bases such estimates on the facts available at the time the reserves are established. These reserves are generally established on an undiscounted basis to recognize the estimated costs of bringing pending claims to final settlement. The reserve calculation takes into account inflation, as well as other factors that can influence the amount of reserves required, some of which are subjective and some of which are dependent on future events. In determining the level of reserves, the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 such claims to final settlement. As these losses have not yet been reported, the Zurich Insurance Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The Zurich Insurance Group also uses reported claim trends, claim severities, exposure growth, and other factors in estimating its IBNR reserves. These reserves are revised as additional information becomes available and as claims are actually reported.

The time required to learn of and settle claims is an important consideration in establishing the Zurich Insurance 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 Zurich Insurance 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.

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The Zurich Insurance 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 Zurich Insurance Group's actuaries. Additionally, the Zurich Insurance Group's Corporate Center actuaries perform periodic reserve reviews of the Zurich Insurance 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.

See notes 8 and 11 for further information on reserves for losses and loss adjustment expenses and to the Insurance risk section of the "Risk Review" for sensitivities on Insurance risk.

b) Future life policyholders' benefits and policyholders' contract deposits

The reserves for future life policyholders' benefits and policyholders' contract deposits and other funds 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 Zurich Insurance 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 Zurich Insurance Group is exposed to longevity risk.

- Under certain contracts, the Zurich Insurance 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 Zurich Insurance Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions, available experience studies and profitability analysis.

See 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, available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and derivative financial instruments are carried at fair value, as of the reporting date. All other financial instruments are carried at amortized cost, with their fair values disclosed in note 27.

The determination of fair value for financial assets and liabilities is generally based on quoted market prices or broker/dealer price quotations. If prices are not readily available, then fair values are based on valuation models (for example, discounted cash flow models) that estimate the amounts for which the respective financial instruments could be transferred 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 information from external pricing providers or internal pricing models (for example, discounted cash flow models or other recognized valuation techniques).

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 Zurich Insurance 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 Zurich Insurance Group are estimated using discounted cash flow models based upon the Zurich Insurance 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 values of liabilities related to unit-linked investment contracts are determined by reference to the fair value of the financial assets backing these liabilities. Fair values of liabilities related to other investment contracts are determined using discounted cash flow models, that incorporate a variety of factors, including credit risk, embedded derivatives (such as unit-linking features), volatility factors (including contract holder behavior), servicing costs and surrenders.

For certain financial instruments, the carrying amounts approximate their fair value because of their short term nature. Such instruments include short-term investments, receivables, obligations to repurchase securities and other short-term financial assets and liabilities.

In determining fair values of investments, the Zurich Insurance Group makes extensive use of third party pricing providers and only in rare cases places reliance on prices that are derived from internal models. One of the objectives of the Zurich Insurance Group's control environment and the process of selection of pricing providers is to ensure that fair values of investments are sourced only from independent, reliable and reputable third party pricing providers.

The Zurich Insurance Group employs third party asset managers who manage a significant percentage of assets on behalf of the Zurich Insurance Group, but are not responsible for determining the fair values reported in the Consolidated 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 party pricing providers 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 pricing provider, the Zurich Insurance Group's policy is to engage with that provider to confirm that the control environment conforms to the high standards that the Zurich Insurance Group expects. In addition, the Zurich Insurance Group's policy is to ensure 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 Zurich Insurance 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 Zurich Insurance 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.

Consolidated financial statements *continued*

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 one or more occurred loss events that have an impact on the estimated future cash flows of the financial asset. The decision to record an impairment is based on a review of such evidence, for example, the issuer's current financial position and its future prospects and the national or economic conditions that correlate with defaults on the assets reviewed for impairment.

For held-to-maturity investments 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 impairment allowance 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 inherent in such impairment reviews, actual outcomes could vary significantly from the forecast 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 at a CGU level 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-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, they have not already been considered in the underlying cash flows.

The recoverable amount for intangibles reflecting distribution agreements is determined on the basis of value-in-use calculations. These calculations use cash flow projections in line with the terms and conditions of the underlying distribution agreements. For the Life business distribution agreements, a fair value less costs to sell is determined, whereby the projected cash flows and discount rates are consistent with the data used for actuarial valuations and embedded value calculations.

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 development of surplus in the Farmers Exchanges. Business plans are approved by management and typically cover a three-year period. Cash flows beyond that three-year period are extrapolated for 20 years assuming zero growth.

The discount rates used in those calculations for the General Insurance and Farmers segments consider the base rates, starting with the U.S. dollar, euro and British pound swap rates for the respective mature markets, adjusted for inflation differential expectations in emerging markets. These rates are further adjusted for equity risk premium and appropriate beta.

Perpetual nominal growth rates beyond the three-year planning period vary and are dependent on country specific growth rate and inflation expectations.

Table 4.1

Overview of discount and perpetual growth rates

	Range of discount rates in % 2010	Range of discount rates in % 2009	**Perpetual normal growth rate in % 2010**	Perpetual nominal growth rate in % 2009
Western Europe	1.3–8.0	1.5–8.3	0.0–5.0	0.0–5.0
Turkey	8.4–15.1	11.3–22.4	6.0	6.0
Russia	9.1–12.7	12.0–17.9	7.3	8.5
Brazil	7.3–10.5	9.3–14.0	3.5	3.5

See notes 3, 6, 15, 17 and 18 for further information on impairment 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 are 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 bancassurance 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.

See 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 experience and future expectations as regards assumptions, such as expenses, lapse rates or investment income.

See 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 is recognized.

See note 21 for further information on deferred taxes.

h) Employee benefits

The Zurich Insurance Group provides defined benefit pension plans and other post-employment plans. In assessing the Zurich Insurance 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 Zurich Insurance 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.

See note 24 for further information on employee benefits.

i) Share-based compensation and cash incentive plans

The Zurich Insurance 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 changes in dividend rate and the contracted option life. These assumptions may differ from actual results due to changes in economic conditions.

See note 25 for further information on share-based compensation and cash incentives plans.

Consolidated financial statements *continued*

5. Acquisitions and divestments

Transactions in 2010

Acquisitions

On September 6, 2010 the Zurich Insurance Group, as a part of its preparations for local regulatory changes, signed an agreement to acquire 75.0 percent including a commitment to increase its investment up to 100.0 percent of 2Plan Group Limited, an independent financial advice firm based in the UK. Subject to the approval of the relevant regulatory authorities, the transaction is expected to close in the second quarter of 2011.

On November 1, 2010 the Zurich Insurance Group completed the acquisition of 80.0 percent of PT Zurich Topas Life (formerly PT Mayapada Life), a life insurer based in Indonesia focused on the distribution of group and individual life and health plans. Mayapada Group will continue to hold 20.0 percent of PT Zurich Topas Life. Through this transaction, the Zurich Insurance Group established its presence in the Indonesian life insurance market. As of December 31, 2010, the Zurich Insurance 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.

On December 1, 2010 the Zurich Insurance Group completed the acquisition of 99.99 percent of Compagnie Libanaise d'Assurances SAL, a composite insurer based in Lebanon with branch operations in the United Arab Emirates, Kuwait and Oman. With this transaction, the Zurich Insurance Group accelerated the expansion of its operations in the Middle East. The total purchase price amounted to USD 60 million of which USD 12 million will be paid during 2011 subject to purchase price and other adjustments. As of December 31, 2010, the Zurich Insurance Group was still in the process of preparing the initial accounting and, therefore, the total purchase price was recorded as an unconsolidated investment in other assets.

Divestments and loss of control

On February 15, 2010, 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, increased its share holding in Zurich Insurance Company South Africa Limited (ZICSA), of which the Zurich Insurance Group owned 73.61 percent, by 15.1 percent from 10.0 percent to 25.1 percent against USD 32 million in cash with option rights to increase up to 51.0 percent or sell the entire stake back to the Zurich Insurance Group. To appropriately reflect the nature of the put and the call options on the shares, the Zurich Insurance Group has reclassified the 25.1 percent non-controlling interest of RBF as a liability measured at fair value in the consolidated financial statements. Following this transaction and the acquisition of 0.44 percent of ZICSA shares, the Zurich Insurance Group owned 58.95 percent of ZICSA shares as of December 31, 2010.

The Zurich Insurance Group has lost control from an accounting perspective in CaixaSabadell Vida, S.A. de Seguros y Reaseguros and CaixaSabadell Compagnia d'Assegurances Generals, S.A. at September 30, 2010, following the merger of the bank distribution partner Caixa d'Estalvis de Sabadell (Caixa Sabadell) together with two other Spanish savings banks to form Caixa d'Estalvis Unió de Caixes de Manlleu, Sabadell i Terrassa (Unnim) on July 1, 2010. Subsequently, on November 16, 2010 the Zurich Insurance Group entered into a definitive agreement to sell back to Unnim its 50 percent stakes in the life and general insurance bancassurance companies CaixaSabadell Vida, S.A. de Seguros y Reaseguros and CaixaSabadell Companyia d'Assegurances Generals, S.A., respectively, jointly owned with Unnim (the Unnim Jointly Owned Companies). Unnim will pay a cash consideration of USD 382 million (EUR 285 million) to the Zurich Insurance Group in exchange for the Zurich Insurance Group's Unnim Jointly Owned Companies stakes, which the Zurich Insurance Group acquired in 2008 from Caixa Sabadell. The Zurich Insurance Group has derecognized the assets and liabilities at their carrying amount and has recognized its retained investment in the Unnim Jointly Owned Companies as an equity security classified as available-for-sale as of September 30, 2010. USD 52 million has been recorded within net gain on divestments of businesses. Following approval by the relevant regulatory authorities, the transaction has been closed on February 28, 2011.

As of December 31, 2010 the Zurich Insurance Group no longer has control in Futuro de Bolivia S.A. Administradora de Fondos de Pensiones following changes in the regulatory environment. The Zurich Insurance Group has derecognized the assets and liabilities at their carrying amount and recorded a net loss of USD 16 million within net gain on divestments of businesses.

During 2010 the Zurich Insurance Group divested all of its shares in Trent Insurance Company Limited, a company based in the UK and Maryland Insurance Company, a company based in the U.S., for a pre-tax gain on disposal in aggregate of USD 2 million with immaterial cash and net assets sold.

Transactions in 2009

Acquisitions

Business combinations – prior period

Table 5.1

in USD millions	21st Century[1]	Minas Brasil	Total
Book value of net assets prior to acquisition	147	9	156
Fair value of net tangible assets acquired	11	9	20
Identifiable intangible assets, net of deferred tax	91	19	110
Goodwill	438	114	552
Total acquisition costs	539	143	682
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 comprises the purchase price adjustment completed during 2010.

On July 1, 2009, Farmers Group Inc., a wholly owned subsidiary of Zurich Financial Services 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, Farmers Group Inc. contemporaneously sold the regulated insurance businesses and certain other related net assets to the Farmers Exchanges, which are managed but not owned by Farmers Group Inc., for USD 1,372 million in cash, resulting in a net purchase price of USD 521 million for the management services business retained by Farmers Group Inc. This transaction reduced the overall volatility of the Zurich Insurance Group's portfolio of businesses. Farmers Group Inc. 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. Upon completion of the final initial accounting, net tangible assets of USD 11 million (initially USD 8 million) and capitalized software of USD 91 million were acquired. The residual goodwill of USD 438 million (initially 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.

"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 Zurich Insurance 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, which extended the Zurich Insurance Group's presence in Brazil, the Zurich Insurance 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 earnout 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 Zurich Insurance 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 Zurich Insurance 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 though the impact of this transaction on net income was immaterial.

Consolidated financial statements *continued*

Divestments

During the year ended December 31, 2009, the Zurich Insurance 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.

6. Investments

Investment result for total investments

Table 6.1a

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments and impairments		Investment result	
	2010	2009	**2010**	2009	**2010**	2009
Cash and cash equivalents	161	179	(43)	94	118	273
Equity securities	1,676	1,640	8,482	10,538	10,158	12,179
Debt securities	5,548	5,864	1,500	(301)	7,048	5,563
Real estate held for investment	791	804	216	(352)	1,007	452
Mortgage loans	386	427	(4)	1	382	428
Other loans	762	767	49	22	810	789
Equity method accounted investments	17	4	(35)	(4)	(18)	–
Other investments[1]	–	64	(365)	(811)	(365)	(747)
Investment result, gross	9,340	9,750	9,801	9,186	19,141	18,936
Investment expenses	(758)	(669)	–	–	(758)	(669)
Investment result, net	**8,582**	**9,081**	**9,801**	**9,186**	**18,383**	**18,267**

[1] Net capital gains/(losses) arise entirely from derivative financial instruments for the year ended December 31, 2010 (USD (508) million for the year ended December 31, 2009), of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 10 million and USD 33 million for the years ended December 31, 2010 and 2009, respectively. Net capital gains/(losses) for the year 2009, includes USD 303 million from the redemption of holdings in related foreign companies.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 201 million and USD 211 million for the years ended December 31, 2010 and 2009, respectively.

Investment result for Group investments

Table 6.1b

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments and impairments		Investment result	
	2010	2009	**2010**	2009	**2010**	2009
Cash and cash equivalents	55	107	(1)	6	54	113
Equity securities	341	385	300	(262)	641	123
Debt securities	5,266	5,531	1,230	(689)	6,496	4,842
Real estate held for investment	466	464	28	131	494	594
Mortgage loans	386	427	(4)	1	382	428
Other loans	716	761	54	22	770	783
Equity method accounted investments	17	4	(35)	(4)	(18)	–
Other investments[1]	–	8	(304)	(856)	(304)	(848)
Investment result, gross for Group investments	7,247	7,686	1,268	(1,651)	8,515	6,035
Investment expenses for Group investments	(226)	(243)	–	–	(226)	(243)
Investment result, net for Group investments	**7,021**	**7,443**	**1,268**	**(1,651)**	**8,289**	**5,792**

[1] Net capital gains/(losses) arise entirely from derivative financial instruments for the year ended December 31, 2010 (USD (553) million for the year ended December 31, 2009), of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 10 million and USD 33 million for the years ended December 31, 2010 and 2009, respectively. Net capital gains/(losses) for the year 2009, includes USD 303 million from the redemption of holdings in related foreign companies.

For the years ended December 31, 2010 and 2009, respectively, impairment charges on Group investments included in net capital losses amounted to USD 649 million and USD 1,158 million, of which impairment charges/(gains) on mortgage loans, other loans and equity method accounted investments comprised USD 55 million and USD (5) million, respectively.

Investment result for unit-linked contracts

Table 6.1c

in USD millions, for the years ended December 31	Net investment income		Net capital gains/ (losses) on investments		Investment result	
	2010	2009	**2010**	2009	**2010**	2009
Cash and cash equivalents	106	72	(42)	88	64	160
Equity securities	1,335	1,256	8,182	10,800	9,516	12,055
Debt securities	282	334	270	387	552	721
Real estate held for investment	325	341	188	(483)	513	(142)
Other loans	46	7	(6)	–	40	7
Other investments[1]	–	56	(60)	45	(60)	101
Investment result, gross for unit-linked contracts	2,093	2,064	8,533	10,837	10,626	12,901
Investment expenses for unit-linked contracts	(532)	(426)	–	–	(532)	(426)
Investment result, net unit-linked contracts	**1,561**	**1,638**	**8,533**	**10,837**	**10,093**	**12,475**

[1] The net capital gains/(losses) arise entirely from derivative financial instruments.

Net capital gains, losses and impairments on equity and debt securities on total investments

Table 6.2

in USD millions, for the years ended December 31	Equity securities		Debt securities		Total	
	2010	2009	**2010**	2009	**2010**	2009
Securities at fair value through profit or loss:	8,470	11,273	643	239	9,113	11,512
Net capital gains/(losses) on Group investments	288	474	373	(149)	661	325
of which:						
Trading securities	*29*	69	*4*	(2)	*33*	66
Securities designated at fair value through profit or loss	*258*	405	*369*	(146)	*628*	258
Net capital gains/(losses) for unit-linked contracts	8,182	10,800	270	387	8,452	11,187
Available-for-sale securities:	13	(735)	817	(476)	830	(1,211)
Realized capital gains on Group investments	633	326	1,468	988	2,101	1,314
Realized capital losses on Group investments	(124)	(471)	(514)	(955)	(638)	(1,426)
Impairments on Group investments	(497)	(590)	(137)	(510)	(634)	(1,100)
Held-to-maturity securities[1]	–	–	40	(64)	40	(64)
Total net capital gains/(losses) and impairments	**8,482**	**10,538**	**1,500**	**(301)**	**9,982**	**10,237**

[1] 2010 gain arises entirely from the reversal of impairments. 2009 loss included impairments of USD 63 million.

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Details of total investments by category

Table 6.3a

as of December 31	Total investments			
	2010		2009	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	17,097	5.6	17,710	6.0
Equity securities:				
Fair value through profit or loss	89,639	29.4	83,085	28.2
of which:				
Trading securities	*416*	*0.1*	*635*	*0.2*
Securities designated at fair value through profit or loss	*89,223*	*29.3*	*82,449*	*28.0*
Available-for-sale[1]	10,161	3.3	7,876	2.7
Total equity securities	99,800	32.7	90,961	30.9
Debt securities:				
Fair value through profit or loss	16,245	5.3	17,878	6.1
of which:				
Trading securities	*43*	*0.0*	*82*	*0.0*
Securities designated at fair value through profit or loss	*16,202*	*5.3*	*17,797*	*6.0*
Available-for-sale	127,938	42.0	123,612	42.0
Held-to-maturity	5,129	1.7	5,143	1.7
Total debt securities	149,312	49.0	146,633	49.8
Real estate held for investment	12,355	4.1	11,686	4.0
Mortgage loans	10,032	3.3	10,472	3.6
Other loans	15,924	5.2	16,820	5.7
Equity method accounted investments	188	0.1	229	0.1
Holdings in related companies[2]	86	0.0	–	0.0
Total investments	**304,794**	**100.0**	**294,510**	**100.0**

[1] Includes a 20 percent investment in New China Life Insurance Company Ltd., in which the Zurich Insurance Group has no significant influence.
[2] Holdings in related companies comprises preferred stock from (ZCM U.S.) Limited.

Details of Group investments by category

Table 6.3b

as of December 31	Group investments			
	2010		2009	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	9,935	5.0	11,869	6.1
Equity securities:				
Fair value through profit or loss	3,874	2.0	4,774	2.4
of which:				
Trading securities	*416*	*0.2*	*635*	*0.3*
Securities designated at fair value through profit or loss	*3,458*	*1.8*	4,138	2.1
Available-for-sale[1]	10,161	5.2	7,876	4.0
Total equity securities	14,035	7.1	12,650	6.5
Debt securities:				
Fair value through profit or loss	6,869	3.5	7,684	3.9
of which:				
Trading securities	*43*	*0.0*	*82*	*0.0*
Securities designated at fair value through profit or loss	*6,826*	*3.5*	*7,602*	*3.9*
Available-for-sale	127,938	65.0	123,612	63.3
Held-to-maturity	5,129	2.6	5,143	2.6
Total debt securities	139,936	71.1	136,439	69.8
Real estate held for investment	8,274	4.2	7,789	4.0
Mortgage loans	10,032	5.1	10,472	5.4
Other loans	14,361	7.3	15,896	8.1
Equity method accounted investments	188	0.1	229	0.1
Holdings in related companies[2]	86	0.0	–	0.0
Total Group investments	**196,846**	**100.0**	**195,344**	**100.0**

[1] Includes a 20 percent investment in New China Life Insurance Company Ltd., in which the Zurich Insurance Group has no significant influence.
[2] Holdings in related companies comprises preferred stock from ZCM (U.S.) Limited.

Cash and investments with a carrying value of USD 5,176 million and USD 4,908 million were deposited on behalf of regulatory authorities as of December 31, 2010 and 2009, respectively.

Securities under security lending and short-term sale and repurchase agreements

As of December 31, 2010 and 2009, investments included USD 5,873 million and USD 5,073 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Cash and cash equivalents included USD 493 million of cash received as collateral for loaned securities as of December 31 2009. Liabilities for cash collateral received for securities lending comprised USD 485 million and USD 508 million as of December 31, 2010 and 2009, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 5,663 million and USD 5,046 million as of December 31, 2010 and 2009, respectively. The Zurich Insurance Group can sell or repledge the collateral only in the event of a default by a counterparty.

As of December 31, 2010 and 2009, respectively, debt securities with a carrying value of USD 3,383 million and USD 3,938 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 3,330 million and USD 3,976 million as of December 31, 2010 and 2009, respectively. The Zurich Insurance 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.

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Details of investments held for unit-linked contracts

Table 6.3c

as of December 31	Investments for unit-linked contracts			
	2010		2009	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	7,163	6.6	5,840	5.9
Equity securities	85,765	79.5	78,311	79.0
Debt securities	9,376	8.7	10,194	10.3
Real estate	4,081	3.8	3,897	3.9
Other loans	1,563	1.4	924	0.9
Total investments for unit-linked contracts	**107,947**	**100.0**	**99,167**	**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)

Table 6.4

in USD millions, as of December 31	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2010	2009	2010	2009	2010	2009
Debt securities:						
< 1 year	131	357	8,829	10,067	1,859	1,403
1 to 5 years	1,915	1,517	41,406	42,912	4,910	5,098
5 to 10 years	1,097	1,189	27,697	26,196	3,180	4,205
> 10 years	1,986	2,081	25,923	22,147	5,014	5,643
Subtotal	5,129	5,143	103,855	101,322	14,963	16,349
Mortgage and asset-backed securities:						
< 1 year	–	–	575	1,288	17	69
1 to 5 years	–	–	7,933	5,323	295	370
5 to 10 years	–	–	4,843	5,114	325	351
> 10 years	–	–	10,733	10,565	645	741
Subtotal	–	–	24,084	22,290	1,282	1,530
Total	**5,129**	**5,143**	**127,938**	**123,612**	**16,245**	**17,878**

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

Table 6.5

in USD millions, as of December 31	Cost or amortized cost[1]		Gross unrealized gains		Gross unrealized losses		Fair value	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Equity securities								
Common stock	4,532	4,256	2,202	827	(446)	(423)	6,288	4,659
Unit trusts	3,730	3,489	341	166	(339)	(586)	3,731	3,070
Non-redeemable preferred stock	141	153	7	10	(7)	(15)	141	148
Total equity securities	**8,403**	**7,898**	**2,551**	**1,002**	**(793)**	**(1,024)**	**10,161**	**7,876**
Debt securities								
Swiss federal and cantonal governments	3,082	2,788	262	199	(9)	(2)	3,335	2,986
United Kingdom government	7,850	7,681	197	176	(22)	(30)	8,026	7,827
United States government	7,092	7,468	231	129	(104)	(169)	7,220	7,427
Other governments and supra-nationals	33,226	29,745	923	1,062	(855)	(233)	33,294	30,574
Corporate securities	50,786	51,537	2,933	2,406	(1,763)	(1,454)	51,957	52,489
Mortgage and asset-backed securities	23,617	22,787	865	556	(398)	(1,053)	24,084	22,290
Redeemable preferred stocks	23	18	–	1	–	–	24	19
Total debt securities	**125,677**	**122,023**	**5,412**	**4,530**	**(3,150)**	**(2,941)**	**127,938**	**123,612**

[1] Net of impairments (see table 6.2).

The significant increase of USD 1,548 million in unrealized gains on equity securities is primarily due to the revaluation of the Zurich Insurance Group's investment in New China Life Company Ltd. and also as a consequence of the global equity market improvements in 2010.

Fair value through profit or loss securities

Table 6.6

as of December 31	Group investments				Investments for unit-linked products		Total investments	
	2010		2009		**2010**	2009	**2010**	2009
	USD millions	**% of total**	USD millions	% of total	**USD millions**	USD millions	**USD millions**	USD millions
Equity securities:								
Common stock	2,849	26.5	3,933	31.6	45,188	42,773	48,036	46,706
of which: common stock portfolios backing participating with profit policyholder contracts	*516*	*4.8*	*674*	*5.4*	–	–	*516*	*674*
Unit trusts	1,024	9.5	840	6.7	40,486	35,521	41,510	36,361
Non-redeemable preferred stock	2	0.0	–	0.0	91	17	93	17
Total equity securities	**3,874**	**36.1**	**4,774**	**38.3**	**85,765**	**78,311**	**89,639**	**83,085**
Debt securities:								
Debt securities	5,851	54.5	6,462	51.9	9,111	9,887	14,963	16,349
Mortgage and asset-backed securities	1,017	9.5	1,222	9.8	265	308	1,282	1,530
Total debt securities	**6,869**	**63.9**	**7,684**	**61.7**	**9,376**	**10,194**	**16,245**	**17,878**
Total	**10,743**	**100.0**	**12,458**	**100.0**	**95,141**	**88,505**	**105,884**	**100,963**

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Held-to-maturity debt securities

Table 6.7

as of December 31	2010		2009	
	USD millions	**% of total**	USD millions	% of total
Swiss federal and cantonal governments	1,813	35.3	1,635	31.8
United States government	1,576	30.7	1,310	25.5
Other governments and supra-nationals	803	15.7	849	16.5
Corporate securities	937	18.3	1,350	26.2
Total held-to-maturity debt securities	**5,129**	**100.0**	**5,143**	**100.0**

Real estate held for investment (total investments)

Table 6.8

in USD millions	Total	
	2010	2009
As of January 1	11,686	11,601
Additions and improvements	340	431
Disposals	(190)	(616)
Market value revaluation	261	(308)
Transfer from/(to) assets held for own use	77	(47)
Transfer (to) assets held for sale	(12)	–
Foreign currency translation effects	193	625
As of December 31	**12,355**	**11,686**

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

Table 6.9

in USD millions, as of December 31	Carrying value		Share in profit		Ownership interest	
	2010	2009	**2010**	2009	**2010**	2009
Associates:						
DKN Financial Group Limited	33	60	2	(3)	30.51%	30.99%
Seven Investment Management Limited	17	17	1	–	49.00%	49.00%
Other	12	9	6	(1)	–	–
Joint ventures:						
MCIS Zurich Insurance Berhad	36	37	3	1	40.00%	40.00%
Other	11	11	1	1	–	–
SPEs:[1]						
Euclid Office, L.P.	28	28	2	1	99.00%	99.00%
Dallas Tower, L.P.	12	11	1	1	99.00%	99.00%
Other	38	56	1	3	–	–
Total	**188**	**229**	**17**	**4**	**–**	**–**

[1] The Zurich Insurance 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 other comprehensive income

Table 6.10

in USD millions, as of December 31	Total	
	2010	2009
Equity securities: available-for-sale	1,758	(22)
Debt securities: available-for-sale	2,262	1,588
Other	182	112
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(662)	(904)
Life deferred acquisition costs	(154)	(97)
Deferred income taxes	(869)	(312)
Non-controlling interests	(17)	(17)
Total[1]	**2,500**	**349**

[1] Net unrealized gains/(losses) include net gains/(losses) arising on cash flow hedges of USD 56 million and USD (9) million as of December 31, 2010 and 2009, respectively.

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7. Derivative financial instruments and hedge accounting

The Zurich Insurance 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 Zurich Insurance 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, 2010 and 2009, respectively. Whilst these notional amounts express the extent of the Zurich Insurance 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 other assets and other liabilities.

Table 7.1

Maturity profile of notional amounts and fair values of derivative financial instruments

in USD millions, as of December 31						2010			2009
	Maturity by notional amount			Notional amounts	Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Interest rate contracts:									
OTC									
Swaps	1	825	2,130	2,956	183	(81)	939	97	(7)
Swaptions	876	2,113	3,628	6,618	214	(30)	3,126	126	(14)
Caps	–	–	–	–	–	–	–	–	–
Exchange traded									
Futures	101	–	–	101	–	–	28	–	–
Total interest rate contracts	**977**	**2,938**	**5,758**	**9,674**	**397**	**(111)**	**4,093**	**223**	**(21)**
Equity contracts:									
OTC									
Swaps	304	–	–	304	–	(24)	–	–	–
Puts	1,529	1,337	1,677	4,543	189	(225)	5,342	186	(203)
Calls	1,537	338	–	1,874	–	(41)	2,181	23	(208)
Exchange traded									
Puts	74	–	–	74	3	–	–	–	–
Calls	58	–	–	58	1	–	–	–	–
Futures	290	–	–	290	–	(4)	–	–	–
Total equity contracts	**3,792**	**1,674**	**1,677**	**7,143**	**194**	**(295)**	**7,523**	**209**	**(411)**
Foreign exchange contracts:									
OTC									
Cross Currency Swaps	–	425	–	425	–	(26)	737	21	–
Forwards	14,733	–	–	14,733	362	(450)	12,473	110	(105)
Total foreign exchange contracts	**14,733**	**425**	**–**	**15,158**	**362**	**(476)**	**13,210**	**132**	**(105)**
Credit contracts:									
OTC									
Credit Default Swaps	268	164	–	432	2	–	649	3	(8)
Total credit contracts	**268**	**164**	**–**	**432**	**2**	**–**	**649**	**3**	**(8)**
Other contracts:									
OTC									
Puts	3	–	831	833	–	(27)	1,046	–	(40)
Swaps	–	–	66	66	–	(5)	71	–	(1)
Total other contracts	**3**	**–**	**896**	**899**	**–**	**(33)**	**1,116**	**–**	**(41)**
Total Group derivative financial instruments	19,773	5,202	8,332	33,307	955	(915)	26,591	566	(586)
Total unit-linked derivative financial instruments	717	1,560	77	2,353	104	(3)	2,458	98	–
Total	**20,490**	**6,762**	**8,408**	**35,660**	**1,059**	**(918)**	**29,049**	**664**	**(586)**

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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 Zurich Insurance Group enters into exchange traded contracts, which are standardized and regulated. Furthermore, because of the structure of the Exchanges, exchange traded contracts are not considered to carry counterparty risk. Over the counter (OTC) contracts are otherwise applied and comprise swaps, swaptions and caps.

In terms of notional amounts, the major change compared with December 31, 2009 related to long receiver swaptions entered into during 2010 to protect one of the Zurich Insurance Group's large life insurance books against falling 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 decrease in the notional amounts of put options between December 31, 2010 and December 31, 2009 was mainly driven by matured positions. Total return swaps and exchange traded options, have been entered into as part of a dynamic hedging strategy to manage its economic exposure and reduce the volatility associated with its closed book of variable annuities products within its U.S. life business.

All positions are for hedging purposes. With respect to the short positions, call options are used in collar structures to mitigate the hedging costs and the written put positions are mostly backed by long put positions or by cash collateral.

Foreign exchange contracts

Foreign exchange contracts consist mainly of forward contracts which are used to hedge the Zurich Insurance Group's foreign currency exposures and manage balance sheet mismatches.

The notional amounts of foreign exchange forwards increased by USD 2,260 million between December 31, 2009 and December 31, 2010, as a result of new entered positions and currency effects.

Credit contracts

The change in credit default swaps, purchased by the Zurich Insurance Group to protect reinsurance assets, related to matured positions.

Other contracts

Other contracts predominantly include stable value options (SVOs), which include written equity put options. SVOs have been provided by the Zurich Insurance 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. The Zurich Insurance Group monitors the risk of surrender on an ongoing basis and considers the likelihood of surrender as an input factor to the model to determine the fair value of the SVOs. During 2010, there were five full surrenders compared with one surrender in 2009. No SVP was paid on four of the surrenders, on the fifth, USD 1 million was paid. In 2009 the net loss on surrender amounted to USD 5 million after applicable reductions. The fair value of the derivative liability recognized in respect of the SVOs, included in written put options, was USD 25 million and USD 37 million as of December 31, 2010 and 2009, respectively. The difference between the notional SVO derived value and market value of the underlying investments for BOLI/COLI policies was USD 831 million and USD 1,043 million as of December 31, 2010 and 2009, 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

Table 7.2

in USD millions, as of December 31						2010			2009
	Maturity by notional amount			Notional principal amounts	Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Fair value hedges:									
Cross currency interest rate swaps	–	1,540	–	1,540	258	–	858	204	–
Currency swaps	–	1	69	69	–	(37)	71	–	(29)
Total fair value hedges	**–**	**1,541**	**69**	**1,609**	**258**	**(37)**	**929**	**204**	**(29)**
Cash flow hedges:				–					
Options on interest rate swaps	712	–	3,143	3,855	331	–	3,474	171	–
Currency swaps	–	1,768	–	1,768	68	(7)	1,768	255	–
Interest rate swaps	76	101	124	302	6	–	566	2	(6)
Total cash flow hedges	**789**	**1,870**	**3,266**	**5,925**	**406**	**(7)**	**5,808**	**428**	**(6)**

Fair value hedges

Designated fair value hedges consist of cross currency interest rate swaps used to protect the Zurich Insurance Group against changes in foreign currency exposure and interest rate exposure of Euro-denominated debt issued by the Zurich Insurance Group.

A fair value hedge relationship on the EUR 500 million 4.5 percent subordinated bond due June 2025 issued by Zurich Finance (USA), Inc. (see note 22), 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 22), was entered into on January 1, 2007 and will end at maturity of the underlying debt instrument in 2014.

A fair value hedge relationship on the USD 750 million 3.25 percent senior bond due for repayment in September 2013 issued by Zurich Finance (Luxembourg), S.A. (see note 22), was entered into on April 8th, 2010 and will end at maturity of the underlying debt instrument in 2013.

The Zurich Insurance Group also has fair value hedge relationships consisting of currency swaps to protect 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

Table 7.3

in USD millions, as of December 31	2010	2009
Gains/(losses)		
on hedging instruments[1]	*(52)*	*62*
on hedged item attributable to the hedged risk	*44*	*(57)*

[1] Excluding current interest income, which is booked on the same line as an offset to interest expense on the hedged debt.

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Cash flow hedges

Designated cash flow hedges, such as options on interest rate swaps are used to protect the Zurich Insurance 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 Zurich Insurance 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, 2010 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 Zurich Insurance Group has also designated cash flow hedges consisting of interest rate swaps to eliminate the exposure to interest rates on Floating Rate Notes held by the Zurich Insurance Group.

The net gains deferred in other comprehensive income on derivatives designated as cash flow hedges were USD 74 million and USD 23 million before tax for the years ended December 31, 2010 and 2009, respectively.

The portion recognized in income was a loss of USD 134 million and a gain of USD 96 million before tax for the years ended December 31, 2010 and 2009, respectively, as an offset to the foreign currency revaluation on the underlying hedged debt.

A net gain of USD 10 million and USD 32 million for the years ended December 31, 2010 and 2009, respectively, was recognized in net capital gains/(losses) and impairments due to a hedge ineffectiveness and changes in the time value of the option.

8. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts

Reserves for insurance contracts

Table 8.1

in USD millions, as of	Gross		Ceded		Net	
	12/31/10	12/31/09	**12/31/10**	12/31/09	**12/31/10**	12/31/09
Reserves for losses and loss adjustment expenses	68,069	68,086	(12,093)	(12,182)	55,976	55,903
Reserves for unearned premiums	16,046	17,676	(2,179)	(2,000)	13,868	15,676
Future life policyholders' benefits	79,315	79,271	(2,423)	(2,199)	76,891	77,072
Policyholders' contract deposits and other funds	17,430	18,857	(2,246)	(2,457)	15,184	16,400
Reserves for unit-linked contracts	61,786	58,204	–	–	61,786	58,204
Total reserves for insurance contracts[1]	**242,646**	**242,094**	**(18,942)**	**(18,839)**	**223,704**	**223,255**

[1] The total reserves for insurance contracts ceded are gross of allowance for uncollectible amounts of USD 132 million and USD 88 million as of December 31, 2010 and December 31, 2009, respectively.

Development of reserves for losses and loss adjustment expenses

Table 8.2

in USD millions	Gross		Ceded		Net	
	2010	2009	**2010**	2009	**2010**	2009
As of January 1	68,086	65,218	(12,182)	(12,232)	55,903	52,986
Losses and loss adjustment expenses incurred:						
Current year	28,917	28,308	(3,930)	(2,610)	24,987	25,698
Prior years	(1,819)	(933)	452	(126)	(1,367)	(1,059)
Total incurred	27,098	27,375	(3,478)	(2,736)	23,620	24,639
Losses and loss adjustment expenses paid:						
Current year	(11,573)	(11,178)	1,049	536	(10,524)	(10,642)
Prior years	(15,167)	(15,547)	2,451	2,500	(12,716)	(13,047)
Total paid	(26,740)	(26,725)	3,500	3,036	(23,240)	(23,689)
Acquisitions/(divestments) and transfers[1]	(18)	103	6	1	(12)	104
Foreign currency translation effects	(356)	2,114	61	(251)	(296)	1,863
As of December 31	**68,069**	**68,086**	**(12,093)**	**(12,182)**	**55,976**	**55,903**

[1] The 2010 net movement includes USD (2) million related to loss of control (see note 5).

The Zurich Insurance 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 total net reserves during the year included USD 1,367 million favorable development emerging from reserves established in prior years. Gross of reinsurance, the favorable development was USD 1,819 million. The reinsurers' share was USD 452 million, reflecting reduced cessions based on a re-estimation of ultimate gross losses. This favorable development was primarily attributable to the General Insurance business and breaks down into many individual movements by Business Division, country, line of business, and accident year, with the majority coming from liability lines.

In the Global Corporate division, favorable development of USD 443 million was approximately equally shared between North America and the rest of the world. In North America, favorable development arose from general liability, property, and auto liability, offset by adverse development in workers compensation. Outside North America, favorable development arose from employers liability and property in the UK, as well as many small releases in other lines of business and countries.

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North America Commercial favorable development of USD 434 million arose mostly from specialties, program, middle market commercial and surety business. These favorable developments were partially offset by unfavorable development in workers compensation.

Europe General Insurance favorable development of USD 371 million resulted primarily from favorable experience in Switzerland, UK, Spain, and Portugal which was partially offset by adverse development of USD 155 million in Germany, in medical and professional liability. The remaining favorable development emerged from Group Reinsurance, International Markets, and the assumed business in the Farmers segment, somewhat offset by adverse development at Centre.

Development of insurance losses, net

Table 8.3

in USD millions, as of December 31	2001	2002	2003	2004	2005	2006	2007	2008	2009	**2010**
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	68,069
Reinsurance recoverable	(13,605)	(14,940)	(14,055)	(14,279)	(14,231)	(13,722)	(13,179)	(12,232)	(12,182)	(12,093)
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	55,976
Cumulative paid as of December 31:										
One year later	*(7,976)*	*(8,923)*	*(9,930)*	*(9,464)*	*(11,423)*	*(11,237)*	*(12,551)*	*(13,047)*	(12,716)	
Two years later	*(12,855)*	*(14,472)*	*(15,550)*	*(16,273)*	*(18,044)*	*(18,362)*	*(19,660)*	*(19,909)*		
Three years later	*(16,698)*	*(18,001)*	*(20,407)*	*(21,234)*	*(23,077)*	*(23,421)*	*(24,428)*			
Four years later	*(19,255)*	*(21,390)*	*(23,941)*	*(24,945)*	*(26,850)*	*(26,839)*				
Five years later	*(21,634)*	*(23,814)*	*(26,616)*	*(27,798)*	*(29,425)*					
Six years later	*(23,471)*	*(25,799)*	*(28,668)*	*(29,810)*						
Seven years later	*(24,849)*	*(27,442)*	*(30,245)*							
Eight years later	*(26,166)*	*(28,672)*								
Nine years later	*(27,105)*									
Net reserves re-estimated as of December 31:										
One year later	*26,908*	*32,239*	*38,977*	*43,627*	*45,976*	*49,594*	*53,441*	*51,927*	54,537	
Two years later	*28,471*	*34,471*	*40,413*	*45,006*	*45,827*	*48,642*	*52,559*	*50,645*		
Three years later	*30,636*	*36,118*	*42,004*	*45,325*	*45,297*	*48,127*	*51,872*			
Four years later	*31,784*	*37,691*	*42,254*	*45,294*	*45,249*	*47,814*				
Five years later	*33,326*	*37,880*	*42,470*	*45,604*	*45,153*					
Six years later	*33,799*	*38,282*	*43,017*	*45,682*						
Seven years later	*34,004*	*38,951*	*43,108*							
Eight years later	*34,716*	*39,086*								
Nine years later	*34,844*									
Cumulative (deficiency)/ redundancy of net reserves	(10,755)	(8,720)	(6,095)	(2,196)	1,041	3,000	2,839	2,341	1,367	
Cumulative (deficiency)/ redundancy as a percentage of initial net reserves	(44.6%)	(28.7%)	(16.5%)	(5.1%)	2.3%	5.9%	5.2%	4.4%	2.4%	
Gross reserves re-estimated as of December 31, 2010	52,505	56,944	59,540	61,090	60,022	61,127	64,324	62,404	66,267	
Cumulative (deficiency)/ redundancy of gross reserves	(14,811)	(11,638)	(8,472)	(3,325)	403	3,408	3,566	2,814	1,819	
Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves	(39.3%)	(25.7%)	(16.6%)	(5.8%)	0.7%	5.3%	5.3%	4.3%	2.7%	

Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Zurich Insurance 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, 2010. 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 reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.3.

Development of reserves for losses and loss adjustment expenses for asbestos and environmental claims

Table 8.4

in USD millions	2010		2009	
	Gross	**Net**	Gross	Net
Asbestos				
As of January 1	3,604	2,998	3,001	2,523
Losses and loss adjustment expenses incurred	35	34	652	539
Losses and loss adjustment expenses paid	(138)	(90)	(299)	(281)
Foreign currency translation effects	(94)	(79)	251	217
As of December 31	**3,408**	**2,863**	**3,604**	**2,998**
Environmental				
As of January 1	280	242	332	277
Losses and loss adjustment expenses incurred	61	20	7	4
Losses and loss adjustment expenses paid	(51)	(38)	(61)	(40)
Foreign currency translation effects	1	–	1	1
As of December 31	**290**	**223**	**280**	**242**

The Zurich Insurance Group has considered asbestos, environmental and latent injury claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Zurich Insurance 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 claims decreased by USD 196 million gross and USD 135 million net during 2010. This decrease was driven by the re-estimation of the ultimate liability for asbestos as well as the normal payout of claims. As a significant portion of the Zurich Insurance Group's reserves is held in British pounds, the strengthening of the U.S. dollar also impacted the decrease significantly.

Reserves for environmental claims increased by USD 10 million gross but decreased by USD 19 million net during 2010. The difference in gross and net movements is explained by the increase in ceded reserves, largely the result of the re-estimation of reserves in North America.

While the Zurich Insurance 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 Zurich Insurance 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.

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Development of future life policyholders' benefits

Table 8.5

in USD millions	Gross		Ceded		Net	
	2010	2009	**2010**	2009	**2010**	2009
As of January 1	79,271	78,118	(2,199)	(2,056)	77,072	76,061
Premiums	9,447	10,252	(534)	(541)	8,913	9,711
Claims	(10,138)	(10,857)	378	391	(9,760)	(10,466)
Fee income and other expenses	(1,689)	(2,938)	118	240	(1,571)	(2,698)
Interest and bonuses credited to policyholders	2,650	2,752	(70)	(68)	2,580	2,683
Change in assumptions	234	(102)	(64)	(13)	170	(115)
Transfers[1]	1,291	(497)	(96)	–	1,194	(497)
(Decreases)/increases recorded in other comprehensive income	(8)	85	–	–	(8)	85
Foreign currency translation effects	(1,744)	2,459	45	(151)	(1,700)	2,308
As of December 31	**79,315**	**79,271**	**(2,423)**	**(2,199)**	**76,891**	**77,072**

[1] The 2010 net movement includes USD 2,730 million related to the transfer to other reserves categories (see note 1) and USD (1,508) million related to loss of control in Caixa Sabadell (see note 5).

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 170 million and USD (115) million for the years ended December 31, 2010 and 2009, respectively. The net changes include the following significant movements:

- interest rate assumptions increased the benefits by USD 216 million in 2010 and reduced them by USD 11 million in 2009;
- expense assumptions increased the benefits by USD 4 million in 2010 and reduced them by USD 2 million in 2009;
- longevity assumptions increased the benefits by USD 1 million in 2010 and by USD 12 million in 2009;
- morbidity assumptions reduced the benefits by USD 7 million in 2010 and by USD 23 million in 2009;
- investment return assumptions reduced the benefits by USD 27 million in 2010 and increased by USD 133 million in 2009;
- modeling assumptions reduced the benefits by USD 10 million in 2010 and increased them by USD 118 million in 2009;
- change in accounting policy (see note 1) reduced the benefits by USD 316 million in 2009.

Policyholders' contract deposits and other funds gross

Table 8.6

in USD millions, as of December 31	**2010**	2009
Annuities	1,293	2,760
Universal life and other contracts	11,164	10,801
Policyholder dividends	4,973	5,297
Total	**17,430**	**18,857**

Development of policyholders' contract deposits and other funds

Table 8.7

in USD millions	Gross		Ceded		Net	
	2010	2009	**2010**	2009	**2010**	2009
As of January 1	18,857	17,047	(2,457)	(2,690)	16,400	14,357
Premiums	2,028	1,667	(90)	(22)	1,938	1,645
Claims	(1,861)	(2,056)	261	350	(1,601)	(1,706)
Fee income and other expenses	(360)	(291)	14	4	(347)	(288)
Interest and bonuses credited to policyholders	993	879	(82)	(90)	912	789
Changes in assumptions	(3)	–	–	–	(3)	–
Transfers[1]	(1,847)	1	100	–	(1,746)	1
(Decrease)/increase recorded in other comprehensive income	(185)	1,045	–	–	(185)	1,045
Foreign currency translation effects	(191)	566	7	(9)	(184)	557
As of December 31	**17,430**	**18,857**	**(2,246)**	**(2,457)**	**15,184**	**16,400**

[1] The 2010 net movement includes USD (1,733) million related to the transfer from other reserves categories (see note 1) and USD (7) million related to loss of control in Caixa Sabadell (see note 5).

Development of reserves for unit-linked contracts

Table 8.8

in USD millions	Gross		Ceded		Net	
	2010	2009	**2010**	2009	**2010**	2009
As of January 1	58,204	47,297	–	–	58,204	47,297
Premiums	8,377	8,192	(3)	(4)	8,374	8,188
Claims	(6,629)	(6,407)	4	2	(6,625)	(6,405)
Fee income and other expenses	(1,496)	(1,171)	(1)	1	(1,497)	(1,170)
Interest and bonuses credited/(charged) to policyholders	5,395	6,616	–	–	5,395	6,616
Transfers[1]	(143)	587	–	–	(143)	587
Foreign currency translation effects	(1,922)	3,091	–	–	(1,922)	3,091
As of December 31	**61,786**	**58,204**	**–**	**–**	**61,786**	**58,204**

[1] The 2010 net movement includes USD (12) million related to the transfer from other reserves categories (see note 1) and USD (160) million related to loss of control in Caixa Sabadell (see note 5).

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9. Liabilities for investment contracts with and without discretionary participation features (DPF)

Liabilities for investment contracts

Table 9.1

in USD millions, as of December 31	**2010**	2009
Liabilities related to unit-linked investment contracts	44,941	40,143
Liabilities related to investment contracts (amortized cost)	592	254
Liabilities related to investment contracts with DPF	5,134	5,728
Total	**50,667**	**46,124**

Unit-linked investment contracts issued by the Zurich Insurance 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.

Development of liabilities for investment contracts

Table 9.2

in USD millions	**2010**	2009
As of January 1	46,124	35,979
Premiums	7,963	6,198
Claims	(5,478)	(4,898)
Fee income and other expenses	(692)	(513)
Interest and bonuses charged/(credited) to policyholders	5,267	5,864
Transfers[1]	(892)	–
Increase/(decrease) recorded in other comprehensive income	(35)	28
Foreign currency translation effects	(1,590)	3,465
As of December 31	**50,667**	**46,124**

[1] The 2010 movement includes USD (884) million related to the transfer to and from reserves for insurance contracts (see note 1).

10. Equity component relating to contracts with DPF

Certain investment and insurance contracts sold by the Zurich Insurance Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the Zurich Insurance Group. Where that discretion has not been exercised, the total amount of undeclared funds surplus is included in other comprehensive income. 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.

Development of the equity component relating to contracts with DPF

Table 10

in USD millions	**2010**	2009
As of January 1	1,837	1,221
Net unrealized (losses)/gains on investments	(39)	381
Current period profit	194	192
Foreign currency translation effects	176	44
As of December 31	**2,168**	**1,837**

11. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 11.1

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2010	2009	**2010**	2009	**2010**	2009
Losses and loss adjustment expenses	27,098	27,375	(3,478)	(2,736)	23,620	24,639
Life insurance death and other benefits	11,004	11,816	(456)	(460)	10,548	11,356
Change in future life policyholders' benefits	488	(887)	(172)	(5)	316	(892)
Total insurance benefits and losses	**38,591**	**38,304**	**(4,106)**	**(3,201)**	**34,484**	**35,103**

Policyholder dividends and participation in profits

Table 11.2

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2010	2009	**2010**	2009	**2010**	2009
Change in policyholders' contract deposits and other funds	809	483	(4)	–	805	484
Change in reserves for unit-linked products	5,287	6,911	–	–	5,287	6,911
Change in liabilities for investment contracts – unit-linked	4,830	5,623	–	–	4,830	5,623
Change in liabilities for investment contracts – other	215	206	–	–	215	206
Change in unit-linked liabilities related to UK capital gains tax	(337)	(364)	–	–	(337)	(364)
Total policyholder dividends and participation in profits	**10,805**	**12,859**	**(4)**	**–**	**10,801**	**12,859**

Underwriting and policy acquisition costs

Table 11.3

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2010	2009	**2010**	2009	**2010**	2009
Amortization of deferred acquisition costs	5,365	5,153	(449)	(394)	4,916	4,759
Amortization of deferred origination costs	119	110	–	–	119	110
Commissions and other underwriting and acquisition expenses[1]	3,859	3,863	(258)	(328)	3,601	3,534
Total underwriting and policy acquisition costs	**9,343**	**9,125**	**(707)**	**(723)**	**8,636**	**8,403**

[1] Net of additions related to deferred acquisition and origination costs.

Change in reserves for unearned premiums

Table 11.4

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2010	2009	**2010**	2009	**2010**	2009
Change in reserves for unearned premiums	**(1,018)**	**826**	**(208)**	**(80)**	**(1,227)**	**746**

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12. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 12.1

in USD millions	General Insurance		Global Life		Other segments[1]		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
As of January 1	3,374	3,247	12,276	10,768	531	308	16,181	14,323
Acquisition costs deferred	2,939	3,012	1,780	1,793	815	1,403	5,533	6,208
Amortization	(2,866)	(2,965)	(873)	(614)	(1,176)	(1,180)	(4,916)	(4,759)
Amortization charged/ (credited) to other comprehensive income	–	–	(74)	(291)	–	1	(74)	(290)
Transfers[2]	(1)	–	–	(28)	–	–	(1)	(28)
Foreign currency translation effects	26	80	(424)	648	(1)	(1)	(398)	726
As of December 31	**3,472**	**3,374**	**12,686**	**12,276**	**169**	**531**	**16,326**	**16,181**

[1] Net of eliminations from inter-segment transactions.
[2] The 2010 movement represents the impact of loss of control in Caixa Sabadell (see note 5).

Development of deferred origination costs

Table 12.2

in USD millions	**2010**	2009
As of January 1	856	770
Origination costs deferred	142	96
Amortization	(119)	(110)
Transfers	–	28
Foreign currency translation effects	(13)	71
As of December 31	**866**	**856**

13. Administrative and other operating expenses

Administrative and other operating expenses

Table 13

in USD millions, for the years ended December 31	**2010**	2009
Wages and salaries	2,886	2,892
Other employee benefits	517	557
Amortization and impairments of intangible assets	874	644
Depreciation and impairments of property and equipment	204	223
Rent, leasing and maintenance	454	394
Marketing costs	213	315
Life renewal commission	348	318
Asset and other non-income taxes	38	24
IT costs	694	734
Litigation and settlement costs	645	59
Restructuring costs	111	97
Foreign currency translation	(164)	49
Other	1,082	705
Total	**7,900**	**7,012**

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

Farmers management fees and other related revenues

Table 14

in USD millions, for the years ended December 31	2010	2009
Farmers management fees and other related revenues	**2,778**	**2,690**

Farmers Group, Inc. (FGI) through its attorney-in-fact (AIF) relationship with the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. (FGI), a wholly owned subsidiary of the Zurich Financial Services Group, is contractually permitted to receive a management fee of 20 percent (25 percent in the case of the Fire Insurance Exchange) of the gross premiums earned by the Farmers Exchanges.

FGI has historically charged a lower management fee than the amount allowed by contract. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 18,311 million and USD 17,885 million for the years ended December 31, 2010 and 2009, respectively.

15. Receivables

Receivables

Table 15.1

in USD millions, as of December 31	2010	2009
Financial instruments		
Receivables from policyholders	3,042	3,415
Receivables from insurance companies, agents, brokers and intermediaries	5,343	5,803
Receivables arising from ceded reinsurance	1,195	1,092
Other receivables	3,979	3,220
Allowance for impairments[1]	(323)	(436)
Non-financial instruments		
Current tax receivables	716	638
Total	**13,952**	**13,732**

[1] Allowance for impairments includes USD 61 million and USD 181 million as of December 31, 2010, and 2009, respectively, for receivables arising from ceded reinsurance.

Receivables are generally settled within one year.

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16. Mortgage loans given as collateral and collateralized loans

As part of the Deutscher Herold transaction in 2002, the Zurich Insurance 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 the year ended December 31, 2009.

The table below shows the maturity schedule of collateralized loans as of December 31, 2010 and 2009, respectively.

Table 16

Maturity schedule - collateralized loans

in USD millions, as of December 31	2010		2009	
	Carrying value[1]	**Undiscounted cash flow[2]**	Carrying value[1]	Undiscounted cash flow[2]
< 1 year	391	389	134	138
1 to 2 years	145	145	546	560
2 to 3 years	9	9	178	182
3 to 4 years	52	51	92	94
4 to 5 years	12	12	78	80
> 5 years	133	133	74	76
Total	**743**	**739**	**1,102**	**1,131**

[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

Property and equipment – current period

Table 17.1 in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2010	364	1,249	470	867	794	3,745
Less: accumulated depreciation/impairments	–	(422)	(361)	(602)	(422)	(1,807)
Net carrying value as of January 1, 2010	364	828	110	265	371	1,939
Additions and improvements	–	33	21	40	88	182
Disposals	(5)	(15)	(1)	(167)	(22)	(210)
Transfers	(19)	(48)	–	16	(2)	(53)
Depreciation and impairments	(1)	(35)	(24)	(62)	(81)	(204)
Foreign currency translation effects	12	13	2	2	4	33
Net carrying value as of December 31, 2010	**352**	**777**	**106**	**95**	**357**	**1,687**
Plus: accumulated depreciation/impairments	1	424	360	484	471	1,740
Gross carrying value as of December 31, 2010	**352**	**1,201**	**467**	**578**	**828**	**3,427**

Property and equipment – prior period

Table 17.2 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	433	764	735	3,689
Less: accumulated depreciation/impairments	–	(547)	(349)	(547)	(361)	(1,804)
Net carrying value as of January 1, 2009	359	851	84	217	374	1,885
Additions and improvements	–	38	49	156	161	403
Disposals	(2)	(8)	(3)	(7)	(29)	(49)
Transfers	(6)	(50)	1	(4)	(71)	(130)
Depreciation and impairments	–	(36)	(25)	(100)	(76)	(237)
Foreign currency translation effects	13	32	3	4	13	66
Net carrying value as of December 31, 2009	**364**	**828**	**110**	**265**	**371**	**1,939**
Plus: accumulated depreciation/impairments	–	422	361	602	422	1,807
Gross carrying value as of December 31, 2009	**364**	**1,249**	**470**	**867**	**794**	**3,745**

The fire insurance value of the Zurich Insurance Group's own-use property and equipment totaled USD 3,342 million and USD 3,470 million as of December 31, 2010 and 2009, respectively.

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18. Goodwill and other intangible assets

Intangible assets – current period

Table 18.1

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2010	2,331	2,749	3,426	1,025	3,417	224	13,172
Less: accumulated amortization/impairments	(34)	(1,612)	(251)	–	(1,857)	(85)	(3,840)
Net carrying value as of January 1, 2010	2,297	1,137	3,174	1,025	1,560	139	9,332
Additions and transfers	(2)	–	–	–	560	5	564
Divestments and transfers[1]	(49)	(87)	(560)	–	(19)	–	(714)
Amortization	–	(107)	(136)	–	(382)	(15)	(641)
Amortization charged to other comprehensive income	–	22	–	–	–	–	22
Impairments	(104)	(3)	–	–	(120)	(5)	(232)
Foreign currency translation effects	(38)	(55)	(198)	–	22	(4)	(274)
Net carrying value as of December 31, 2010	**2,104**	**906**	**2,281**	**1,025**	**1,620**	**119**	**8,056**
Plus: accumulated amortization/impairments	136	1,622	326	–	2,339	76	4,500
Gross carrying value as of December 31, 2010	**2,241**	**2,528**	**2,607**	**1,025**	**3,959**	**195**	**12,556**

[1] The reduction in Goodwill is the result of a revised earn-out calculation within one of the Zurich Insurance Group's Spanish General Insurance operations and the impact of loss of control in Futuro de Bolivia S.A. Administradora de Fondos de Pensiones (see note 5). The decreases in PVFP and distribution agreements represent the impact of loss of control in Caixa Sabadell (see note 5).

As of December 31, 2010, the intangible assets related to non-controlling interests were USD 145 million from present value of future profits (PVFP) of acquired insurance contracts, USD 1,055 million from distribution agreements and USD 6 million from software.

As part of its annual impairment testing the Zurich Insurance Group has compared the carrying amount of its intangible assets with the recoverable amount, generally based on a value-in-use calculation. Based on management's best estimate and after taking into consideration sensitivity analysis of the current conditions, an impairment of USD 104 million has been recorded for the goodwill of the Russian General Insurance operations.

The decision to decentralize its Direct insurance efforts in the Zurich Insurance Group's European General Insurance operations resulted in an impairment of USD 114 million for software which will no longer be used.

Intangible assets by segment – current period

Table 18.2

in USD millions, as of December 31, 2010	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	869	–	538	–	576	94	2,077
Global Life	411	906	1,742	–	348	25	3,433
Farmers	819	–	–	1,025	428	–	2,273
Other Operating Businesses	5	–	–	–	268	–	273
Net carrying value as of December 31, 2010	**2,104**	**906**	**2,281**	**1,025**	**1,620**	**119**	**8,056**

Intangible assets – prior period

Table 18.3

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2009	1,696	2,617	3,075	1,025	2,774	247	11,434
Less: accumulated amortization/impairments	(19)	(1,364)	(42)	–	(1,631)	(80)	(3,137)
Net carrying value as of January 1, 2009	1,677	1,252	3,032	1,025	1,144	166	8,297
Additions and transfers	548	(8)	262	–	694	(21)	1,474
Divestments and transfers	–	–	–	–	(1)	–	(1)
Amortization	–	(51)	(177)	–	(314)	(14)	(557)
Amortization charged to other comprehensive income	–	(65)	–	–	–	–	(65)
Impairments	(12)	(30)	(29)	–	(9)	(8)	(88)
Foreign currency translation effects	85	39	86	–	46	15	271
Net carrying value as of December 31, 2009	**2,297**	**1,137**	**3,174**	**1,025**	**1,560**	**139**	**9,332**
Plus: accumulated amortization/impairments	34	1,612	251	–	1,857	85	3,840
Gross carrying value as of December 31, 2009	**2,331**	**2,749**	**3,426**	**1,025**	**3,417**	**224**	**13,172**

As of December 31, 2009, the intangible assets related to non-controlling interests were USD 224 million from present value of future profits (PVFP) of acquired insurance contracts, USD 1,484 million from distribution agreements and USD 8 million from software.

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 88 million were recorded in income comprising impairments on goodwill of USD 12 million mainly related to the Spanish General Insurance operations, USD 30 million of PVFP in the Spanish Life operations and USD 29 million for distribution agreements related to Italian Life operations.

Intangible assets by segment – prior period

Table 18.4

in USD millions, as of December 31, 2009	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	1,029	–	705	–	607	108	2,448
Global Life	442	1,137	2,470	–	363	31	4,443
Farmers	821	–	–	1,025	372	–	2,218
Other Operating Businesses	5	–	–	–	218	–	223
Net carrying value as of December 31, 2009	**2,297**	**1,137**	**3,174**	**1,025**	**1,560**	**139**	**9,332**

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19. Other assets

Other assets

Table 19.1

in USD millions, as of December 31	2010	2009
Other financial assets:		
Derivative assets	1,722	1,296
Other assets	137	199
Other non-financial assets:		
Accrued premiums	748	785
Prepaid expenses	229	277
Prepaid insurance benefits	441	369
Other assets	385	350
Total other assets	**3,661**	**3,276**

The undiscounted amounts of the other financial assets as of December 31, 2010 and 2009 are not materially different from the carrying amounts.

20. Other liabilities

Other liabilities

Table 20.1

in USD millions, as of December 31	2010	2009
Other financial liabilities:		
Amounts due to reinsurers, agents and other insurance companies	2,041	1,997
Amounts due to investment brokers	977	823
Amounts due to life policyholders	668	561
Liabilities for cash collateral received for securities lending	485	508
Derivative liabilities	962	621
Liabilities for defined benefit plans	1,779	1,891
Other liabilities for employee benefit plans	112	101
Other liabilities	6,549	6,556
Other non-financial liabilities:		
Current tax payables	850	949
Restructuring provisions	155	119
Premium prepayments and other advances	957	828
Other liabilities	1,114	527
Total other liabilities	**16,650**	**15,481**

Table 20.2 shows the maturity schedule of other financial liabilities as of December 31, 2010 and 2009, respectively.

Table 20.2

Maturity schedule – other financial liabilities[1]

in USD millions, as of December 31	2010		2009	
	Carrying value[2]	**Undiscounted cash flow[3]**	Carrying value[2]	Undiscounted cash flow[3]
< 1 year	9,942	9,953	9,612	9,619
1 to 2 years	590	618	173	178
2 to 3 years	56	67	500	507
3 to 4 years	44	53	116	125
4 to 5 years	31	39	47	59
> 5 years	1,131	2,185	719	1,682
Total	**11,795**	**12,916**	**11,167**	**12,169**

[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

Restructuring provisions

in USD millions	2010	2009
As of January 1	119	88
Provisions made during the period	111	101
Provisions used during the period	(77)	(86)
Provisions reversed during the period	–	(3)
Foreign currency translation effects	2	4
Net changes due to acquisitions/divestments	–	17
Other changes	–	(1)
As of December 31	**155**	**119**

During the year ended December 31, 2010, the Zurich Insurance Group entered into several restructuring programs, recording a total charge to income of USD 62 million. A further USD 49 million was recorded in respect of restructuring programs initiated in prior years. The largest restructuring program was initiated as part of the new strategy of the Zurich Insurance Group's General Insurance segment. The UK Direct operations are now integrated into the UK business to create operational synergies and the focus of the Direct insurance efforts are on Germany, Italy and Switzerland. The related restructuring costs amount to USD 20 million. In addition, the Zurich Insurance Group recorded USD 114 million of software impairments as outlined in note 18.

During the year ended December 31, 2009, the Zurich Insurance Group entered into several restructuring programs, recording a total charge to income of USD 86 million. A further USD 15 million was recorded in respect to restructuring programs initiated in prior years. The largest restructuring program in 2009 related to the integration of the management services business of 21st Century into the Zurich Insurance Group's Farmers business division. A restructuring plan was announced involving office closures and a reduction in workforce. The impact was predominantly headcount related, with costs approximating USD 28 million. As a result of the 21st Century transaction, the Zurich Insurance Group also assumed already existing restructuring provisions of USD 17 million for on-going restructuring activities.

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21. Income taxes

Income tax expense – current/deferred split

Table 21.1

in USD millions, for the years ended December 31	2010	2009
Current	1,161	940
Deferred	228	592
Total income tax expense/(benefit)	**1,389**	**1,532**

Income tax expense – policyholder/shareholder attribution

Table 21.2

in USD millions, for the years ended December 31	2010	2009
Total income tax expense/(benefit) attributable to policyholders	462	387
Total income tax expense/(benefit) attributable to shareholders	928	1,146
Total income tax expense/(benefit)	**1,389**	**1,532**

The Zurich Insurance 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.

Expected and actual income tax expense

Table 21.3

in USD millions, for the years ended December 31	Rate	2010	Rate	2009
Net income before income taxes		5,067		5,333
Less: income tax (expense)/benefit attributable to policyholders		(462)		(387)
Net income before income taxes attributable to shareholders		4,606		4,947
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,013	22.0%	1,088
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*46*		220
Tax exempt and lower taxed income		*(115)*		(53)
Non-deductible expenses		*63*		78
Tax losses previously unrecognized or no longer recognized		*11*		16
Prior year adjustments and other		*(90)*		(203)
Actual income tax expense attributable to shareholders	20.1%	928	23.2%	1,146
Plus: income tax expense/(benefit) attributable to policyholders		462		387
Actual income tax expense/(benefit)	**27.4%**	**1,389**	**28.7%**	**1,532**

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.

Current tax receivables and payables

Table 21.4

in USD millions, as of December 31	2010	2009
Current tax receivables	716	638
Current tax payables	(850)	(949)
Net current tax payables	**(134)**	**(312)**

Deferred tax assets and liabilities

Table 21.5

in USD millions, as of December 31	2010	2009
Deferred tax assets	2,059	2,417
Deferred tax liabilities	(4,582)	(4,445)
Net deferred tax liabilities	**(2,523)**	**(2,028)**

Development of net deferred tax liabilities

Table 21.6

in USD millions	2010	2009
As of January 1	(2,028)	(80)
Net change recognized in the income statement	(228)	(592)
Net change recognized in equity	(485)	(1,216)
Net changes due to acquisitions/(divestments)	198	11
Foreign currency translation effects	20	(151)
As of December 31	**(2,523)**	**(2,028)**

The cumulative amount of deferred tax credited to shareholders' equity, net of foreign currency translation effects, amounted to USD 21 million and USD 506 million for the years ended December 31, 2010 and 2009, respectively.

USD 831 million increase in deferred tax liabilities resulted primarily from the acquisitions in 2008 and the divestments in 2010, of which USD 387 million relates to non-controlling interests.

Deferred taxes – policyholder/ shareholder attribution

Table 21.7

in USD millions, as of December 31	2010	2009
Net deferred tax assets/(liabilities) attributable to policyholders	(473)	(74)
Net deferred tax assets/(liabilities) attributable to shareholders	(2,050)	(1,954)
Net deferred tax liabilities	**(2,523)**	**(2,028)**

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Deferred tax assets/(liabilities) analysis by source

Table 21.8

in USD millions, as of December 31	2010		2009	
	Assets	**Liabilities**	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	26	(618)	31	(516)
Depreciable and amortizable assets	33	(38)	22	(31)
Life policyholders' benefits and deposits[1]	34	(13)	17	(7)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	322	(364)	316	(365)
Accruals & deferred income	207	(4)	197	–
Reserves for losses and loss adjustment expenses	511	(2)	489	–
Reserves for unearned premiums	720	–	704	–
Pensions and other employee benefits	381	–	376	–
Other assets/liabilities	641	(207)	769	(54)
Tax loss carryforwards	452	–	471	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,327	(1,247)	3,392	(973)
Valuation allowance	(21)	–	(2)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,306	(1,247)	3,390	(973)
Deferred tax assets	**2,059**		**2,417**	
Deferred acquisition and origination costs	90	(2,784)	56	(2,762)
Depreciable and amortizable assets	147	(2,023)	101	(2,116)
Life policyholders' benefits and deposits[1]	808	(722)	529	(741)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	249	(1,019)	344	(580)
Accruals & deferred income	120	(167)	105	(123)
Reserves for losses and loss adjustment expenses	78	(335)	339	(478)
Reserves for unearned premiums	34	(96)	59	(64)
Deferred front-end fees	717	–	747	–
Pensions and other employee benefits	344	(43)	366	(32)
Other assets/liabilities	829	(972)	930	(1,345)
Tax loss carryforwards	173	–	244	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,589	(8,159)	3,819	(8,241)
Valuation allowance	(11)	–	(23)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,578	(8,159)	3,796	(8,241)
Deferred tax liabilities		**(4,582)**		**(4,445)**
Net deferred tax liabilities		**(2,523)**		**(2,028)**

[1] Includes reserves for unit-linked contracts.

The Zurich Insurance Group's deferred tax assets and liabilities are recorded in its tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate. The first part of 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, 2010 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 4 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.

Tax losses carryforwards and tax credits

Table 21.9

in USD millions, as of December 31	2010	2009
For which deferred tax assets have been recognized, expiring		
< 5 years	358	160
5 to 20 years	1,360	1,290
> 20 years or with no time limitation	151	1,066
Subtotal	1,869	2,516
For which deferred tax assets have not been recognized, expiring		
5 to 20 years	180	178
> 20 years or with no time limitation	105	24
Subtotal	285	202
Total	**2,154**	**2,718**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 32.4 percent and 34.0 percent for the years 2010 and 2009, 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 the deferred tax asset against deferred tax liabilities.

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income projections and believes that the carrying values of the deferred tax assets as of December 31, 2010, are recoverable.

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22. Debt

Debt

Table 22.1

in USD millions, as of		2010	2009
Debt related to capital markets			
Zurich Capital Markets	Various debt instruments payable within 1 year	400	25
Debt related to capital markets		**400**	**25**
Senior debt			
Zurich Finance (USA), Inc.	3.50% CHF 300 bond, due November 2011[1, 7]	322	291
	4.50% EUR 1,000 bond, due September 2014[2, 7]	1,353	1,443
	4.875% EUR 800 bond, due April 2012[7]	1,069	1,143
	6.50% EUR 600 bond, due October 2015[3, 7]	801	857
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 bond, due September 2013[6,7]	765	747
Zurich Insurance Company Ltd	3.875% CHF 1,000 bond, due July 2011	1,071	965
	3.75% CHF 500 bond, due September 2013[7]	531	478
	Various debt instruments payable within 1 year	–	200
	Various debt instruments payable within 1 year with Zurich Financial Services Ltd[4]	656	667
Other	Various debt instruments payable within 1 year	1	6
	Various debt instruments payable in more than 1 year	141	149
Senior debt		6,710	6,945
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 capital notes, undated[7]	190	203
	7.5% EUR 425 bond, due July 2039[7]	564	603
	4.25% CHF 700 bond, undated[7]	736	–
	5.41% CHF 1,700 (CHF 4,000 in 2009) long-term undated loan, with Zurich Financial Services Ltd[4]	1,820	3,860
Zurich Finance (UK) plc	6.625% GBP 450 bond, undated notes[5, 7]	692	717
Zurich Finance (USA), Inc.	5.75% EUR 500 bond, due October 2023[7]	661	707
	4.5% EUR 500 bond, due June 2025[6, 7]	696	730
ZFS Finance (USA) Trust I	Series I 6.15% USD 600 ECAPS, due December 2065	–	567
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 ECAPS, due December 2065	673	672
ZFS Finance (USA) Trust III	Series III Floating Rate USD 400 ECAPS, due December 2065	–	200
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 Trust Preferred Securities, due May 2062	250	249
ZFS Finance (USA) Trust V	Series V 6.5% USD 1,000 Trust Preferred Securities, due May 2067	497	496
Other	Various debt instruments payable in more than 1 year	44	22
Subordinated debt		6,824	9,026
Total senior and subordinated debt		**13,534**	**15,971**
Total debt		**13,934**	**15,996**

[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] Loans with subsidiaries of Zurich Financial Services Group which are not part of the Zurich Insurance Group.
[5] 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, Zurich Financial Services Group will issue a replacement debt instrument with terms and provisions that are as or more equity-like than the replaced notes.
[6] These bonds are part of qualifying fair value hedges.
[7] Issued under the Zurich Financial Services Group's Euro Medium Term Note Programme (EMTN Programme).

None of the debt instruments listed above were in default as of December 31, 2010 and 2009.

Debt related to capital markets

Debt related to capital markets increased by USD 375 million from USD 25 million as of December 31, 2009 to USD 400 million as of December 31, 2010 due to an increase in commercial paper issuance.

Senior and subordinated debt

To facilitate the issuance of debt, the Zurich Financial Services 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 Zurich Insurance Group has also issued debt instruments outside this programme when deemed appropriate.

i) Senior debt

Senior debt decreased from USD 6.9 billion to USD 6.7 billion primarily due to the USD 200 million repayment of debt drawn under a credit facility for the sole purpose of financing surplus notes issued by the Leschi Life Assurance Company (Leschi), which expired in June 2010.

ii) Subordinated debt

Subordinated debt securities are obligations of the Zurich Insurance Group which, in case of liquidation, rank junior to all present and future senior indebtedness and certain other obligations of the Zurich Insurance Group.

Subordinated debt decreased from USD 9.0 billion as of December 31, 2009 to USD 6.8 billion as of December 31, 2010, mainly as a result of the early partial repayment on September 9, 2010 by Zurich Insurance Company Ltd of CHF 2.3 billion of the outstanding CHF 4.0 billion subordinated loan from Zurich Financial Services Ltd.

The strengthening of the U.S. dollar against the euro and British pound were the other drivers of the decrease, as the redemption of Enhanced Capital Advantaged Preferred Securities (ECAPS) was almost offset by the issuance of subordinated notes under the EMTN Programme.

On November 26, 2010 Zurich Insurance Company Ltd issued CHF 700 million of subordinated notes under the EMTN Programme. These subordinated bonds carry a fixed annual coupon of 4.25%, are first callable in 2016 and are undated.

On December 15, 2010, ZFS Finance (USA) Trust I and ZFS Finance (USA) Trust III have exercised their option to early redeem at par together with accrued interest USD 600 million of Series I Fixed/Adjustable Rate ECAPS and USD 400 million of Series III Floating Rate ECAPS, which were both issued in December 2005. As a result of previous buy back activities USD 32 million of Series I Fixed/Adjustable Rate ECAPS and USD 200 million of Series III Floating Rate ECAPS issued in December 2005 were already held by the Zurich Insurance Group, resulting in a net repayment of USD 768 million.

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Description and features of significant subordinated debt

Table 22.2

in USD millions Description	Coupon conditions	Call/redemption date	Redemption conditions [3]
5.41% CHF 1,700 loan, undated loan	5.41 % payable annually	Annually on or after December 19, 2018 (subject to prior written approval by the FINMA)	In case of a defined solvency event, the loan may be converted into newly to be issued ordinary shares of ZIC.
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.
4.25% CHF 700 bond, undated notes	4.25% payable annually up to May 26, 2016 and then reset quarterly to 3-month CHF-Libor plus 3.046%.	Quarterly on or after May 26, 2016	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 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 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 Constant Maturity Treasury (CMT) 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.
[3] All subordinated debt instruments are also subject to mandatory redemption as a result of various tax, default or other events.

Table 22.3

Maturity schedule of outstanding debt

in USD millions, as of December 31	2010		2009	
	Carrying value	**Undiscounted cash flow**	Carrying value	Undiscounted cash flow
< 1 year	2,450	3,110	898	1,707
1 to 2 years	1,080	1,701	1,272	2,081
2 to 3 years	1,297	1,848	1,143	1,929
3 to 4 years	1,388	1,895	1,235	1,940
4 to 5 years	919	1,372	1,448	2,099
5 to 10 years	–	1,771	975	3,500
> 10 years	6,801	9,610	9,026	13,213
Total	**13,934**	**21,308**	15,996	26,469

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, 2010 and December 31, 2009, respectively. All debt is assumed to mature within 20 years of the balance sheet date the latest without refinancing. Floating interest rates are assumed to remain constant as of December 31, 2010 and December 31, 2009, respectively. The aggregated cash flows are translated into USD at end-of-period rates.

Table 22.4

Interest expense on debt

in USD millions, for the years ended December 31	2010	2009
Debt related to capital markets	6	44
Senior debt	250	218
Subordinated debt	473	505
Total	**728**	**767**

Interest expense on debt

Interest expense on debt decreased from USD 767 million in 2009 to USD 728 million in 2010, mainly as a result of the early partial repayment by Zurich Insurance Company Ltd of CHF 2.3 billion of the outstanding CHF 4.0 billion subordinated loan from Zurich Financial Services Ltd.

Credit facilities

The Zurich Insurance Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in September 2012. Zurich Insurance Company Ltd and Farmers Group, Inc. are guarantors of the facility and can draw up to USD 2.75 billion, and USD 250 million, respectively. No borrowings were outstanding under this facility as of December 31, 2010 or December 31, 2009.

In addition, Zurich Insurance Company Ltd has access to revolving credit facilities totaling USD 441 million, which will expire in June and July 2013. As of December 31, 2010 no borrowings have been drawn under these facilities.

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23. Shareholders' equity

Share capital

Table 23

number of shares, as of December 31	2010	2009
Contingent and issued share capital, CHF 10 par value	86,000,000	86,000,000
Issued share capital, CHF 10 par value	82,500,000	82,500,000
Issued profit sharing certificates (Genusscheine)[1]	2	2

[1] These profit sharing certificates confer on their holder the right to receive a dividend if and to the extent the General Meeting decides. However, they do not confer on their holder any voting rights or rights associated thereto, any rights to subscribe for new shares, or any rights to liquidation proceeds.

a) Issued share capital
As of December 31, 2010 and 2009, Zurich Insurance Company Ltd had an issued share capital of CHF 825,000,000, consisting of 82,500,000 issued and fully paid registered shares of CHF 10 par value each.

b) Contingent share capital
At the General Meeting of Shareholders on June 11, 1997, a contingent capital of CHF 35,000,000, or 3,500,000 shares with a par value of CHF 10 each, was created, of which 2,500,000 shares can be issued in connection with the granting of conversion and/or option rights and 1,000,000 shares can be issued for the purpose of employees' share ownership plans. None of the contingent shares have been issued as of December 31, 2010.

c) Profit sharing certificates
As of December 31, 2010 and 2009, Zurich Insurance Company Ltd had two profit sharing certificates with no par value issued.

d) Additional paid-in-capital
On April 25, 2008, Zurich Insurance Company Ltd entered into a subordinated loan agreement for an amount of CHF 6.1 billion (USD 6.0 billion) with Zurich Group Holding in order to finance its purchase of Farmers Group Inc. Following the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009, the loan was assumed by Zurich Financial Services Ltd. The loan is undated and pays interest subject to solvency thresholds and the payment of interest is optional if Zurich Insurance Company Ltd does not declare or pay any dividends or other profit distributions to its shareholders. The loan is classified as an equity instrument under IFRS as it meets the classification criteria as such under IAS 32.

e) Shareholders
As of December 31, 2009, following the merger of Zurich Group Holding into Zurich Financial Services Ltd, 100 percent of the registered shares of Zurich Insurance Company Ltd were owned by Zurich Financial Services Ltd. This ownership has remained unchanged as of December 31, 2010.

24. Employee benefits

Personnel and other related costs incurred for the year ended December 31, 2010 and 2009, were USD 5,231 million and USD 5,372 million, including wages and salaries of USD 4,324 million and USD 4,406 million, respectively.

The Zurich Insurance 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 Zurich Insurance 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 pension and post-employment benefit plans, the Zurich Financial Services Group's Pension Committee also provides oversight of the Zurich Insurance Group's benefits policy.

a) Defined benefit plans

Defined benefit pension plans

Employees of the Zurich Insurance 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 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 defined benefit pension plans are funded through contributions by the Zurich Insurance Group, and in some cases the employee, to trusts or foundations independent of the Zurich Insurance 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 Zurich Insurance Group's balance sheet.

For the defined benefit pension plans, total contributions to funded pension plans and benefit payments by the Zurich Insurance Group are currently estimated at USD 496 million for 2011 compared with USD 456 million estimated in the previous year for 2010. The actual amounts may differ.

Other defined post-employment benefits

Certain of the operating companies provide post-employment benefit programs covering medical care and/or life insurance. Eligibility for 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 Zurich Insurance 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.

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Table 24.1

Status of funded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans					Other defined post-employment benefits				
	2010	2009	2008	2007	2006	**2010**	2009	2008	2007	2006
Present value of funded obligations	(14,978)	(13,966)	(12,680)	(13,653)	(12,190)	–	(70)	(93)	(66)	(70)
Fair value of plan assets	13,791	12,622	10,879	13,285	11,071	–	–	–	5	10
Funded status	(1,186)	(1,344)	(1,801)	(368)	(1,119)	–	(70)	(92)	(61)	(60)
Unrecognized past service cost	(1)	–	(1)	–	2	–	–	–	–	–
Cumulative impact of asset ceiling	(3)	(15)	(7)	(62)	–	–	–	–	–	–
Liability – funded obligations	**(1,190)**	**(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, and are included in OCI.

Table 24.2

Status of unfunded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans					Other defined post-employment benefits				
	2010	2009	2008	2007	2006	**2010**	2009	2008	2007	2006
Present value of unfunded obligations	(260)	(230)	(210)	(207)	(985)	(295)	(205)	(183)	(208)	(196)
Unrecognized past service cost	(10)	–	–	–	–	(23)	(28)	(1)	(2)	(1)
Liability – unfunded obligations	**(270)**	**(229)**	**(209)**	**(207)**	**(985)**	**(318)**	**(234)**	**(184)**	**(210)**	**(197)**

Table 24.3

Status of funded and unfunded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans					Other defined post-employment benefits				
	2010	2009	2008	2007	2006	**2010**	2009	2008	2007	2006
Liability	**(1,460)**	**(1,588)**	**(2,017)**	**(637)**	**(2,101)**	**(319)**	**(303)**	**(277)**	**(271)**	**(256)**

Table 24.4

Expense recognized in income

in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2010	2009	**2010**	2009
Current service cost	(269)	(298)	(9)	(7)
Interest cost	(694)	(685)	(15)	(16)
Expected return on plan assets	722	619	–	–
Past service cost	(12)	(7)	5	9
Gains on curtailment or settlement	49	2	–	–
Net pension expense	**(205)**	**(369)**	**(19)**	**(14)**

Pension expense is recognized in other employee benefits, which are included in administrative and other operating expense.

Fair value of assets held in funded defined benefit plans

Table 24.5

in USD millions, as of December 31	Defined benefit pension plans	
	2010	2009
Mortgage loans	441	396
Cash and cash equivalents	236	181
Equity securities	3,903	3,598
Debt securities	8,410	7,740
Real estate	795	701
Other assets[1]	6	6
Total	**13,791**	**12,622**

[1] UK annuity policies.

As a matter of policy, pension plan investment guidelines do not permit investment in any assets in which the Zurich Financial Services Group or its subsidiaries have an interest, including shares or other financial instruments issued and real estate held for own use.

Movement in funded and unfunded defined benefit plan obligation

Table 24.6

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2010	2009	**2010**	2009
Benefit obligation as of January 1	(14,196)	(12,890)	(275)	(275)
Current service cost	(269)	(298)	(9)	(7)
Past service cost including plan amendments	(1)	(9)	–	37
Interest cost	(694)	(685)	(15)	(16)
Actuarial gain/(loss) included in other comprehensive income	(598)	12	(4)	(7)
Employee contributions	(43)	(42)	(5)	(4)
Effect of curtailments or settlements	104	15	–	–
Benefits paid	539	526	20	17
Effects of business combinations and other transfers	–	(53)	–	(12)
Foreign currency translation effects	(81)	(771)	(7)	(7)
Benefit obligation as of December 31	**(15,238)**	**(14,196)**	**(296)**	**(275)**

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Movement in fair value of plan assets – funded plans

Table 24.7

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2010	2009	**2010**	2009
Fair value of plan assets as of January 1	12,622	10,879	–	–
Expected return on plan assets	722	619	–	–
Actuarial gain/(loss) included in other comprehensive income	388	318	–	–
Employer contributions	532	528	15	13
Employee contributions	43	42	5	4
Benefits paid	(539)	(526)	(20)	(17)
Effect of curtailments or settlements	(56)	(13)	–	–
Effects of business combinations and other transfers	–	61	–	–
Foreign currency translation effects	79	713	–	–
Fair value of plan assets as of December 31	**13,791**	**12,622**	**–**	**–**

The actual returns on defined benefit pension plan assets for the years ended December 31, 2010 and 2009 were gains of USD 1,110 million and USD 937 million, respectively.

The summary of the balance sheet changes in relation to defined benefit plans and other defined post-employment benefits is given below.

Movement in liability for funded and unfunded plans

Table 24.8

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2010	2009	**2010**	2009
Liability as of January 1	(1,588)	(2,017)	(303)	(277)
Current year expense	(205)	(369)	(19)	(14)
Contributions paid	532	528	15	13
Change in liability due to asset ceiling	11	(7)	–	–
Actuarial gain/(loss) included in other comprehensive income	(210)	329	(4)	(7)
Effects of business combinations and other transfers	–	(1)	–	2
Foreign currency translation effects	(1)	(51)	(7)	(21)
Liability as of December 31	**(1,460)**	**(1,588)**	**(319)**	**(303)**

The movements in actuarial gains and losses due to differences between actual and expected experience on the Zurich Insurance 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:

Actuarial gain/(loss)

Table 24.9

in USD millions	2010	2009	2008	2007	2006
Actuarial gain/(loss) as of January 1	(2,672)	(2,907)	(1,308)	(1,870)	(2,420)
Experience adjustments on plan liabilities	205	(37)	(147)	(118)	(375)
Experience adjustments on plan assets	388	318	(1,485)	188	447
Changes due to discount rate assumptions	(742)	(103)	223	975	–
Changes due to other actuarial assumptions	(65)	144	(392)	(345)	528
Asset ceiling recognition	11	(7)	51	(64)	–
Foreign currency translation effects	(39)	(80)	152	(75)	(50)
Total actuarial gain/(loss) as of December 31	**(2,914)**	**(2,672)**	**(2,907)**	**(1,308)**	**(1,870)**
Total actuarial gain/(loss) net of policyholder participation and taxes as of December 31	**(1,924)**	**(1,762)**	**(1,934)**	**(818)**	**(1,286)**

The principal financial assumptions used to calculate the Zurich Insurance Group's major defined benefit pension and defined post-employment benefit obligations and the Zurich Insurance Group's pension expenses are as follows:

Assumptions used in determining the actuarial liabilities for major defined benefit pension plans

Table 24.10

as of December 31	2010				2009			
	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany
Discount rate	2.9%	5.5%	5.3%	5.3%	3.1%	5.9%	5.8%	5.4%
Inflation rate	1.9%	3.4%	2.3%	1.7%	1.5%	3.1%	2.4%	1.7%
Expected long-term rate of return on assets	3.4%	6.2%	6.4%	4.5%	4.1%	6.6%	7.0%	5.1%
Expected future salary increases	2.5%	3.9%	4.2%	3.0%	2.1%	4.3%	3.9%	2.7%
Expected future pension increases	1.4%	3.4%	0.0%	1.7%	1.0%	3.1%	0.3%	1.7%
Current average life expectancy for a 65 year old male	19.9	22.7	19.4	18.3	19.8	22.3	19.4	18.1

The expected long-term rate of return on assets is derived separately for each of the Zurich Insurance 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.

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Table 24.11

Assumptions used in determining the actuarial liabilities for other defined post-employment benefit plans

as of December 31	2010	2009
	U.S.	U.S.
Discount rate	5.0%	5.5%
Expected increase in long-term health cost – initial rate	7.8%	8.4%
Expected increase in long-term health cost – ultimate rate	4.8%	4.8%

The actuarial assumptions for 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 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 Zurich Insurance 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 Zurich Insurance Group's contributions under these plans amounted to USD 108 million and USD 99 million in 2010 and 2009, respectively.

25. Share-based compensation and cash incentive plans

The Zurich Insurance 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 Zurich Financial Services 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 shares of Zurich Financial Services Ltd, the ultimate parent which is not part of the Zurich Insurance Group.

a) Cash incentive plans

Various businesses throughout the Zurich Insurance Group operate short-term incentive programs for executives, management and, in some cases, for employees of the business unit. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 417 million and USD 401 million for the years ended December 31, 2010 and 2009, respectively.

b) Share-based compensation plans for employees and executives

The Zurich Insurance Group encourages employees to own shares in 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	2010	2009
Total option-based expenses	55	42
Total share-based expenses	128	119
Total expenses	**183**	**161**

The explanations below provide a more detailed overview of the main plans available to employees of the Zurich Insurance Group.

Employee share plans

Share Incentive Plan for employees in the UK

The Zurich Insurance 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 274 and 374 participants in the plan as of December 31, 2010 and 2009, respectively. The Zurich Insurance 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 a participant's base salary (before any flexible benefit adjustments) or a maximum of GBP 3,000. The total number of participating employees in the reward share element of the plans as of December 31, 2010 and 2009 was 4,775 and 5,569 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 2010, 5,448 employees participated in the Employee Incentive Plan compared with 6,053 in 2009. For the year ended December 31, 2010, 1,372 employees received shares under the 2009 employee performance share plan. For the year ended December 31, 2009, 1,579 employees received shares under the 2008 employee performance share plan.

Share-based compensation plans for executives

The Zurich Insurance 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 Zurich Insurance Group can also make restricted share grants to selected employees, which provide share awards if the individual remains employed with the Zurich Insurance Group on selected dates in the future.

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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 Zurich Financial Services Ltd during the previous calendar year. For 2010 and future grants Zurich Finanacial Services Group is looking back to a three year performance period. The current performance metrics are Zurich Financial Services Ltd'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 168 and 175 participants in this plan as of December 31, 2010 and 2009, 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, dependant on the performance of Zurich Financial Services Group during the previous calendar year. For 2010 and future grants the Zurich Financial Services Group is looking back to a three year performance period. The current performance metrics are Zurich Financial Services Ltd '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 947 and 900 participants in this plan as of December 31, 2010 and 2009, 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)	
	2010	2009	**2010**	2009
As of January 1	3,053,757	2,760,367	278	284
Options granted	1,698,817	1,175,774	272	276
Options forfeited	(73,560)	(31,161)	265	303
Options exercised	(427,673)	(147,369)	204	147
Options expired during period	(557,783)	(703,854)	298	327
As of December 31	**3,693,558**	**3,053,757**	**281**	**278**
Exercisable options as of December 31	2,263,094	2,132,033	281	278

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 2010 and 2009 was CHF 241.41 and CHF 209.33 respectively.

Table 25.3

Share options exercised during the period

	Number of shares		Average share price in CHF	
	2010	2009	**2010**	2009
Exercise date				
January to April	199,096	2,211	255	190
May to August	125,825	68,336	240	218
September to December	102,752	76,822	241	241
Total	**427,673**	147,369	**248**	230

Table 25.4

Range of exercise prices of options outstanding

in CHF, as of December 31	Number of options		Weighted average contractual life in years		Weighted average remaining expected life in years	
	2010	2009	2010	2009	2010	2009
Exercise price						
100 to 200	536,850	527,527	7.0	7.0	5.3	6.1
201 to 300	1,404,170	785,161	7.0	7.0	4.8	2.0
301 to 400	1,752,538	1,741,069	7.1	7.1	3.3	4.3
Total	**3,693,558**	3,053,757	**7.0**	7.0	**4.2**	4.0

Table 25.5

Options and shares granted during the period

for the year ended December 31	Number		Weighted average fair value at grant date (in CHF)	
	2010	2009	2010	2009
Shares granted during the period	407,940	543,698	260	198
Options granted during the period[1]	1,698,817	1,175,774	29	62

[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. If 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

	2010	2009
Share price, in CHF[1]	260	198
Exercise price, in CHF	260	198
Assumed volatility	25.55%	42.95%
Risk-free interest rate	2.00%	2.21%
Expected dividend yield	6.10%	4.07%
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 2010 and 2009. The implied volatility was determined based on the average of a number of several independent quotes.

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26. Contingent liabilities, contractual commitments and financial guarantees

The Zurich Insurance Group has provided contractual commitments and financial guarantees to external parties, associates and joint ventures as well as partnerships. These arrangements include commitments under certain conditions to make liquidity advances to cover default principal and interest payments, or make capital contributions or provide equity financing.

Table 26.1

Quantifiable commitments and contingencies

in USD millions, as of December 31	2010	2009
Commitments under investment agreements	4,100	4,165
Less funded commitments	(3,513)	(3,386)
Remaining commitments under investment agreements	587	779
Guarantees and letters of credit[1]	3,817	3,915
Future rent commitments	1,001	1,136
Undrawn loan commitments	51	95
Other commitments and contingent liabilities	88	84

[1] Guarantee features embedded in life insurance products are not included. For such guarantee features, see note 8 on insurance reserves.

Commitments under investment agreements

The Zurich Insurance 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 Zurich Insurance Group on a timely basis.

Guarantees and letters of credit

USD 3,817 million for financial guarantees and letters of credit were outstanding as of December 31, 2010. The Zurich Insurance 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 Zurich Insurance Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 184 million and USD 197 million for the years ended December 31, 2010 and 2009, respectively.

Table 26.2

Future payments under non-cancelable operating leases with terms in excess of one year

in USD millions, as of December 31	2010	2009
< 1 year	203	224
1 to 2 years	168	198
2 to 3 years	135	153
3 to 4 years	119	124
4 to 5 years	111	130
> 5 years	265	306
Total	**1,001**	1,136

Indemnity agreements

The Zurich Insurance 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, 2010 the Zurich Insurance Group has recorded in this respect provisions of USD 44 million.

Pledged assets

The majority of assets pledged to secure the Zurich Insurance 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 9,611 million and USD 9,288 million as of December 31, 2010 and 2009, respectively.

Terms and conditions associated with the financial assets pledged to secure the Zurich Insurance Group's liabilities are usual and standard in the markets in which the underlying agreements were executed.

Other contingent liabilities

The Zurich Insurance Group has received notices from various tax authorities asserting deficiencies in taxes for various years. The Zurich Insurance Group is of the view that the ultimate outcome of these reviews would not materially affect its consolidated financial position.

The Zurich Insurance 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, 2010 is estimated to amount to approximately USD 168 million.

In common with other groups writing life assurance business in the UK, the Zurich Insurance 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 Zurich Insurance Group completed the divestment of various asset management operations. As part of these agreements, the Zurich Insurance 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 Zurich Insurance Group may be required to compensate for these shortfalls.

Legal proceedings and regulatory investigations

The Zurich Insurance Group and its subsidiaries are continuously involved in legal proceedings, claims and regulatory investigations arising, for the most part, in the ordinary course of their business operations. The Zurich Insurance Group's business is subject to extensive supervision, and companies in the Zurich Insurance Group are in regular contact with various regulatory authorities. In addition, certain companies within the Zurich Insurance Group are engaged in the following legal proceedings and regulatory investigations.

In Switzerland, ten suits have been brought since 2000 in various Swiss courts by the Swiss Guaranty Fund for Occupational Retirement Schemes (the "Guaranty Fund") and the Vera Pension and Vera Investment Funds against Zurich Life Insurance Company ("Zurich Life") and Geneva Life Insurance Company ("Geneva Life"), wholly owned indirect subsidiaries of Zurich Insurance Company Ltd. Zurich Life and Geneva Life provided insurance to certain pension funds and granted loans on policy reserves. The proceeds were invested, together with additional bank loans, in various real estate projects by the investment funds. Successful throughout the 1970s and 1980s, the funds were facing increasing financial difficulties during the downturn of the real estate activity in the early 1990s, until they collapsed in 1996. Both Geneva Life and Zurich Life set off the loans against the policy reserves. The Guaranty Fund and the liquidators of the pension and investment funds alleged, inter alia, that the loans were illegal and the corporate defendants were de facto members of the management of the funds. They also alleged that the life insurance companies and other parties involved were jointly responsible for consolidated damages. Whereas two suits remain pending, the remaining suits have either been withdrawn or dismissed. The Zurich Insurance Group maintains that these suits are without merit and intends to continue to defend itself vigorously.

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company, et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action. In addition to Zurich American Insurance Company ("ZAIC") and three of its insurance company subsidiaries, Zurich Insurance Company Ltd ("ZIC") and Orange Stone Reinsurance Dublin ("Orange Stone") are named as defendants. Plaintiffs, who are historical policyholders of the Home Insurance Company ("Home"), plead claims for fraudulent transfer, alter ego liability and unfair business practices relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. Plaintiffs allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contend that this forced Home into liquidation. Plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he

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subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses. The trial commenced on November 1, 2010, with 12 days of trial in 2010. The trial is currently scheduled to resume in April 2011.

A similar action entitled A.P.I., Inc. Asbestos Settlement Trust, et al. v. Zurich American Insurance Company, et al., was filed in March 2009 in the District Court for the Second Judicial District, County of Ramsey, Minnesota. ZAIC and two of its insurance company subsidiaries were named as defendants (the "Original Defendants"). The Original Defendants removed the case to the U.S. District Court for the District of Minnesota, where it is now pending. The plaintiffs subsequently amended their complaint to add ZIC, Orange Stone and two additional ZAIC subsidiaries as defendants (the "Newly-Added Defendants"). As in the Fuller-Austin cases, plaintiffs allege that A.P.I., Inc. is an insured under policies issued by Home, primarily in the 1970s. The complaint seeks to hold defendants liable for Home's policy obligations under various theories of vicarious liability tied to the recapitalization of Home, and it also alleges that defendants are liable for damages under theories of fraudulent transfer and tortious interference with contract.

Prior to the filing of the amended complaint, the Original Defendants moved to dismiss the case. After the amended complaint was filed, all defendants, including the Newly-Added Defendants, moved again to dismiss the amended complaint. On March 31, 2010, the court ruled on the original dismissal motion, and dismissed plaintiffs' claims against the Original Defendants under theories of fraudulent transfer and tortious interference with contractual relations, as well as a consumer fraud claim. On September 30, 2010, the court ruled on the motion to dismiss the amended complaint, and dismissed plaintiffs' claims against all defendants under theories of fraudulent transfer and tortuous interference, as well as a consumer fraud claim. The motion - consistent with the court's March 31 2010 ruling – was denied as to the remaining claims, as the court found that plaintiffs' vicarious liability theories could not be disposed of on a motion to dismiss. Pretrial discovery is continuing. According to the court's scheduling order, summary judgment motions are scheduled to be filed on or about April 22, 2011, with additional briefing and argument to follow. The action is to be "trial ready" in May 2011. The Zurich Insurance Group maintains that the Fuller-Austin and API cases are without merit and intends to continue to defend itself vigorously.

In 2006, the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group. The Zurich Insurance Group's defendants did not admit to any violation of U.S. or state laws as part of this settlement.

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 had 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 had 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 had 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, and the ruling became final in June 2009. The Dutch settlement papers were filed with the Dutch court on July 9, 2010.

On November 12, 2010, the Amsterdam Court of Appeal provisionally ruled that it has jurisdiction to consider the petition for approval of the settlement. The Amsterdam Court of Appeal directed the parties to notify the class about the proposed settlement and will hold a hearing on October 3 and 4, 2011 to consider whether to declare the proposed settlement binding on the class.

Zurich Financial Services Ltd and Farmers Group, Inc., a subsidiary of Zurich Insurance Group are defendants in a putative class action pending in California state court captioned Benjamin Fogel v. Farmers Group, Inc ("Fogel Case"). The case, originally filed in August 2003, is brought on behalf of a putative class of all policyholders of the Farmers Exchanges from 1999 to the present. The plaintiff alleges that Farmers Group, Inc. and certain of its affiliates ("Farmers"), which acted as the attorneys-in-fact for policyholders of the Farmers Exchanges, collected excessive and unreasonable management fees. The complaint seeks, amongst other things, disgorgement, as well as damages and injunctive relief. In February 2005, the trial court granted Farmers' motion for summary judgment, and plaintiff appealed. In 2008, a California appellate court reversed the trial court's ruling and reinstated the litigation. On

September 9, 2009, plaintiff filed a motion seeking to certify a nationwide class of all policyholders of the Farmers Exchanges since August 1, 1999. On October 7, 2010, Zurich Financial Services Ltd. announced that it and Farmers Group, Inc had agreed in principle to a proposed nationwide settlement of the Fogel Case. Under the terms of the settlement, a sum of USD 455 million will be made available to approximately 15-20 million policyholders who may qualify for a distribution under the settlement, with any residual amount going to the Farmers Exchanges. Zurich Financial Services Ltd. and Farmers Group, Inc will also pay attorneys' fees to class action counsel of up to USD 90 million, as well as the costs of administering the settlement. On December 12, 2010, the parties executed the settlement agreement and they filed a motion on January 12, 2011 seeking preliminary approval of the settlement. The hearing on the motion for preliminary approval was held on March 2, 2011 and the motion for preliminary approval was granted. All terms of the settlement are subject to the court's final approval. The court scheduled the final approval hearing for September 7, 2011.

While the Zurich Insurance Group believes that it is not a party to, nor are any of its subsidiaries the subject of, any unresolved current legal proceedings, claims, litigation and investigations that will have a material adverse effect on the Zurich Insurance Group's consolidated financial condition, proceedings are inherently unpredictable, and 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.

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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 financial assets and financial liabilities – Group investments and other Non-unit-linked

Table 27.1a

in USD millions, as of December 31	Total fair value		Total carrying value	
	2010	2009	**2010**	2009
Cash and cash equivalents	9,935	11,869	9,935	11,869
Available-for-sale securities				
Debt securities	127,938	123,612	127,938	123,612
Equity securities	10,161	7,876	10,161	7,876
Total available-for-sale securities	138,099	131,488	138,099	131,488
Securities at FV through profit or loss				
Trading				
Debt securities	43	82	43	82
Equity securities	416	635	416	635
Designated at FV				
Debt securities	6,826	7,602	6,826	7,602
Equity securities	3,458	4,138	3,458	4,138
Total securities at FV through profit or loss	10,743	12,458	10,743	12,458
Derivative assets	1,618	1,198	1,618	1,198
Held-to-maturity debt securities	5,280	5,408	5,129	5,143
Equity method accounted investments	186	214	188	229
Loans and receivables				
Mortgage loans	10,402	10,783	10,032	10,472
Other loans	15,282	16,656	14,361	15,896
Deposits made under assumed reinsurance contracts	2,812	3,854	2,832	3,861
Mortgage loans given as collateral	739	1,130	743	1,102
Receivables	13,201	13,027	13,236	13,094
Other financial assets	4	8	4	8
Total loans and receivables	42,441	45,458	41,209	44,434
Total financial assets	**208,303**	**208,093**	**206,922**	**206,818**
Financial liabilities at FV through profit or loss				
Trading:				
Obligation to repurchase securities	(3,330)	(3,976)	(3,330)	(3,976)
Derivative liabilities	(959)	(621)	(959)	(621)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(592)	(254)	(592)	(254)
Liabilities related to investment contracts with DPF	(4,875)	(5,306)	(5,134)	(5,728)
Debt	(14,186)	(15,499)	(13,934)	(15,996)
Deposits received under ceded reinsurance contracts	(1,231)	(1,446)	(1,362)	(1,558)
Collateralized loans	(739)	(1,131)	(743)	(1,102)
Other financial liabilities	(2,136)	(2,209)	(2,139)	(2,215)
Total financial liabilities	**(28,047)**	**(30,443)**	**(28,193)**	**(31,449)**

Fair value (FV) and carrying value of financial assets and financial liabilities – unit-linked

Table 27.1b

in USD millions, as of December 31	Total fair value		Total carrying value	
	2010	2009	**2010**	2009
Cash and cash equivalents	7,163	5,840	7,163	5,840
Investments at FV through profit or loss				
Designated at FV				
Debt securities	9,376	10,194	9,376	10,194
Equity securities	85,765	78,311	85,765	78,311
Other loans	1,563	924	1,563	924
Total investments at FV through profit or loss	96,703	89,429	96,703	89,429
Derivative assets	104	98	104	98
Loans and receivables				
Total	**103,970**	**95,368**	**103,970**	**95,368**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	(44,941)	(40,143)	(44,941)	(40,143)
Derivative liabilities	(3)	–	(3)	–
Total	**(44,944)**	**(40,143)**	**(44,944)**	**(40,143)**

The methods and assumptions used by the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group to determine their fair value. The Zurich Insurance 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".

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Group investments and other Non-unit linked financial instruments carried at fair value

Fair value hierarchy – current period

Table 27.2a

in USD millions, as of December 31, 2010	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	38,509	86,036	3,394	127,938
Equity securities	3,776	3,548	2,836	10,161
Total available-for-sale securities	42,285	89,584	6,230	138,099
Securities at FV through profit or loss				
Trading				
Debt securities	41	2	–	43
Equity securities	–	40	377	416
Designated at FV				
Debt securities	2,847	3,789	191	6,826
Equity securities	516	1,397	1,545	3,458
Total securities at FV through profit or loss	3,404	5,227	2,113	10,743
Derivative assets	4	1,569	46	1,618
Total	**45,693**	**96,379**	**8,389**	**150,461**
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	–	(3,330)	–	(3,330)
Derivative liabilities	(34)	(900)	(25)	(959)
Total	**(34)**	**(4,230)**	**(25)**	**(4,289)**

Fair value hierarchy – prior period

Table 27.2b

in USD millions, as of December 31, 2009	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	45,254	75,381	2,977	123,612
Equity securities	4,252	2,659	965	7,876
Total available-for-sale securities	49,505	78,040	3,942	131,488
Securities at FV through profit or loss				
Trading				
Debt securities	73	8	–	82
Equity securities	–	35	600	635
Designated at FV				
Debt securities	2,652	4,730	220	7,602
Equity securities	901	933	2,305	4,138
Total securities at FV through profit or loss	3,627	5,706	3,125	12,458
Derivative assets	–	1,159	39	1,198
Total	**53,132**	**84,905**	**7,106**	**145,143**
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	–	(3,976)	–	(3,976)
Derivative liabilities	–	(584)	(37)	(621)
Total	**–**	**(4,561)**	**(37)**	**(4,598)**

Roll forward analysis for financial instruments classified under Level 3 – current period

Table 27.3a

in USD millions	Available-for-sale securities		Securities at FV through profit or loss: Trading	Securities at FV through profit or loss: Designated at FV		Derivative assets	Derivative liabilities
	Debt securities	Equity securities	Equity securities	Debt securities	Equity securities		
As of January 1, 2010	2,977	965	600	220	2,305	39	(37)
Realized gains/(losses) recognized in income[1]	22	12	(1)	11	47	–	–
Unrealized gains/(losses) recognized in income[1]	(81)	(72)	17	32	106	5	12
Unrealized gains/(losses) recognized in other comprehensive income	545	727	–	–	–	–	–
Purchases	506	1,082	63	1	92	–	–
Sales/Redemptions/Settlements	(964)	(56)	(311)	(79)	(1,003)	–	–
Net transfers into Level 3	394	2	–	12	–	–	–
Foreign currency translation effects	(6)	176	8	(5)	(2)	2	–
As of December 31, 2010	**3,394**	**2,836**	**377**	**191**	**1,545**	**46**	**(25)**

[1] Presented under "Net capital gains/(losses) and impairments on Group investments" in the Consolidated income statements.

Roll forward analysis for financial instruments classified under Level 3 – prior period

Table 27.3b

in USD millions	Available-for-sale securities		Securities at FV through profit or loss: Trading	Securities at FV through profit or loss: Designated at FV		Derivative assets	Derivative liabilities
	Debt securities	Equity securities	Equity securities	Debt securities	Equity securities		
As of January 1, 2009	3,122	1,118	753	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)	(14)
Unrealized gains/(losses) recognized in other comprehensive income	511	(183)	–	–	–	–	–
Purchases	137	164	159	2	589	–	–
Sales/Redemptions/Settlements	(786)	(23)	(373)	(10)	(855)	–	5
Net transfers into Level 3	315	2	–	10	–	–	–
Foreign currency translation effects	24	21	5	4	28	1	–
As of December 31, 2009	**2,977**	**965**	**600**	**220**	**2,305**	**39**	**(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

As of December 31, 2010 and 2009, the Zurich Insurance Group classified under Level 3 asset-backed securities (ABSs) amounting to USD 3.6 billion and USD 3.2 billion, respectively. These ABSs include non-agency backed securities for which the limited market activity observed at year end required the Zurich Insurance Group's 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 27.4 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.

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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 Zurich Insurance 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 27.4a

Sensitivity analysis of Level 3 ABSs to changes in key assumptions – current period

as of December 31, 2010	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%	(105)	–20%	110
Prepayment rates	–20%	(35)	+20%	33
Recovery rates	–20%	(32)	+20%	31
Default rates	+20%	(6)	–20%	3

Table 27.4b

Sensitivity analysis of Level 3 ABSs to changes in key assumptions – prior period

as of December 31, 2009	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

As of December 31, 2010 and 2009, the Zurich Insurance Group also classified under Level 3 investments in hedge funds and private equity funds amounting to USD 2.2 billion and USD 3.1 billion, respectively. These investments are valued based on regular reports from the issuing funds and fair values 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 27.5a

Fair value hierarchy – current period

in USD millions, as of December 31, 2010	Level 1	Level 2	Level 3	Total
Investments at FV through profit or loss				
Designated at FV				
Debt securities	4,421	4,812	143	9,376
Equity securities	47,644	33,471	4,650	85,765
Other loans	–	1,563	–	1,563
Total investments at FV through profit or loss	52,065	39,845	4,793	96,703
Derivative assets	–	102	2	104
Total	**52,065**	**39,948**	**4,795**	**96,808**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	–	(44,941)	–	(44,941)
Derivative liabilities	–	(2)	(2)	(3)
Total	**–**	**(44,942)**	**(2)**	**(44,944)**

Fair value hierarchy – prior period

Table 27.5b

in USD millions, as of December 31, 2009	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)
Total	**–**	**(40,143)**	**–**	**(40,143)**

Roll forward analysis for financial assets classified under Level 3 – current period

Table 27.6a

in USD millions	Securities at FV through profit or loss	
	Designated at FV	
	Debt securities	Equity securities
As of January 1, 2010	130	4,579
Realized gains/(losses) recognized in income[1]	4	27
Unrealized gains/(losses) recognized in income[1]	23	124
Purchases	19	113
Sales/Redemptions	(29)	(167)
Net transfers into/out of Level 3	1	(19)
Foreign currency translation effects	(4)	(7)
As of December 31, 2010	**143**	**4,650**

[1] Presented under "Net investment result on unit-linked investments" in the Consolidated income statements.

Roll forward analysis for financial assets classified under Level 3 – prior period

Table 27.6b

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.

Consolidated financial statements *continued*

28. Related party transactions

In the normal course of business, the Zurich Insurance Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the Zurich Insurance 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 the Zurich Insurance Group's distribution partners of the jointly owned companies in Spain, reflected in the consolidated income statements and consolidated balance sheets.

Related party transactions included in the Consolidated financial statements

Table 28.1

in USD millions	2010	2009
Consolidated income statements for the years ended December 31		
Net earned premiums and policy fees	12	10
Net investment income on Group investments	(46)	(11)
Net cap gains/(losses) and impairments on Group investments	(27)	(304)
Other income/(expense)	15	26
Administrative and other operating expense	2	(6)
Insurance benefits and losses, net of reinsurance	(6)	(11)
Interest expense on debt	(173)	(212)
Consolidated balance sheets as of December 31		
Total Group investments	4,643	4,698
Total unit-linked investments	3,196	2,349
Accrued investment income	14	14
Receivables	48	45
Other assets	20	9
Reserves for insurance contracts	(13)	(18)
Accrued liabilities	(2)	(5)
Other liabilities	(70)	(9)
Debt	(2,477)	(4,528)

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 Zurich Financial Services Group Executive Committee.

Related party transactions – key personnel

Table 28.2

in USD millions, for the years ended December 31	2010	2009
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	30	29
Post-employment benefits	3	4
Share-based compensation	20	31
Termination benefits	2	–
Total remuneration of key personnel	**55**	64

As of December 31, 2010 there were no loans, advances or credits outstanding from Members of the Zurich Financial Services Group Executive Committee, while loans and guarantees granted to Members of the Zurich Financial Services Group Executive Committee amounted to USD 1 million for the year ended December 31, 2009. Outstanding loans and guarantees granted to Members of the Board of Directors amounted to USD 2 million for the years ended December 31, 2010 and 2009. The terms "Members of the Board of Directors" and "Members of the Zurich Financial Services 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 both the years ended December 31, 2010 and 2009.

No provision for non-repayment has been required in 2010 and 2009 for the loans or guarantees made to Members of the Zurich Financial Services Group Executive Committee.

The cash compensation, current benefits and fees are short term in nature.

Consolidated financial statements *continued*

29. Farmers Exchanges

Farmers Group, Inc. (FGI) and its subsidiaries provide certain non-claims related management services to the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. a wholly owned subsidiary of the Zurich Financial Services Group. In addition, the Zurich Insurance 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, 2010 and 2009, FGI and other Zurich Insurance 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.

Table 29

Surplus Notes

in USD millions, as of December 31	2010	2009
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
4.65% certificates of contribution, due December 2013[1]	150	300
Various other certificates of contribution	23	23
Total	**1,080**	**1,230**

[1] On August 1, 2010, USD 150 million of the USD 300 million surplus note with the Farmers Exchanges was redeemed. In addition, the interest rate on the remaining USD 150 million surplus note was reset to 4.65 percent from 10.30 percent.

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 ceded risk through quota share reinsurance treaties to Farmers Reinsurance Company (Farmers Re Co), a wholly owned subsidiary of FGI, and to Zurich Insurance Company Ltd (ZIC).

Auto Physical Damage Quota Share reinsurance agreement

The Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges provides for annual ceded premiums of USD 1 billion of gross written premiums with 20.0 percent assumed by Farmers Re Co (USD 200 million) and 80.0 percent assumed by ZIC (USD 800 million), a 25.8 percent ceding commission for acquisition expenses, and an 8.2 percent ceding commission for unallocated loss adjustment expense. In addition, Farmers Re Co 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 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 Co 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, 2010 and 2009. Ceded incurred losses and loss adjustment expenses totaled USD 648 million and USD 667 million for the years ended December 31, 2010 and 2009, respectively. Farmers Exchanges' share of the total experience commission income was USD 315 million and USD 299 million for the years ended December 31, 2010 and 2009, 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 Co 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.

Effective June 30, 2009, the All Lines agreement was cancelled subsequent to which Farmers Re Co 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 Exchanges, prospectively. Under the All Lines agreement, Farmers Re Co 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 Exchanges after the APD agreement has been applied. In addition, under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1 billion. As a result, Farmers Re Co 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 Exchanges 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 Exchanges to Farmers Re Co 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 Exchanges for acquisition expenses due to the increased participation in the All Lines agreement.

Effective December 31, 2009, the All Lines 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. Unearned premiums totaling USD 159 million were transferred from Farmers Re Co and ZIC to the Farmers Exchanges as a result of their decreased participation in the All Lines agreement effective December 31, 2009. In addition, the Farmers Exchanges remitted USD 41 million of reinsurance commissions to Farmers Re Co and ZIC for acquisition expenses due to the decreased participation in the All Lines agreement.

Effective June 30, 2010, the All Lines agreement was cancelled subsequent to which Farmers Re Co and ZIC entered into a new 25.0 percent All Lines agreement under which each assumes a percentage of all lines of business written by the Farmers Exchanges, prospectively. Under this new All Lines agreement, Farmers Re Co and ZIC assume a 5.0 percent and 20.0 percent respective 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. In addition, under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1 billion. As a result, Farmers Re Co and ZIC are subject to a maximum annual catastrophe loss of USD 50 million and USD 200 million, respectively. The All Lines agreement, which can be terminated after 90 days notice by any of the parties, also provides for the Farmers Exchanges to receive a provisional ceding commission of 25.7 percent of premiums for acquisition expenses, 9.0 percent of premiums for unallocated loss adjustment expense and 5.3 percent of premiums for other expenses. Unearned premiums totaling USD 614 million were transferred from Farmers Re Co and ZIC to the Farmers Exchanges as a result of their decreased participation in the All Lines agreement through June 30, 2010. In addition, the Farmers Exchanges remitted USD 158 million of reinsurance commissions to Farmers Re Co and ZIC for acquisition expenses due to the decreased participation in the All Lines agreement.

Effective December 31, 2010, the All Lines agreement was modified and the participation ratio was decreased by 13.0 percent to 12.0 percent. In addition to this change, the provisional ceding commission for acquisition expenses was increased by 1.0 percent from 25.7 percent to 26.7 percent, while the Farmers Exchanges' catastrophe losses were changed from USD 1.0 billion to a maximum of USD 1.2 billion. Unearned premiums totaling USD 693 million were transferred from Farmers Re Co and ZIC to the Farmers Exchanges as a result of their decreased participation in the All Lines agreement effective December 31, 2010. In addition, the Farmers Exchanges remitted USD 185 million of reinsurance commissions to Farmers Re Co and ZIC for acquisition expenses due to the decreased participation in the All Lines agreement.

Based on the results for 2010 and 2009, Farmers Exchanges' share of recoveries were USD 3,059 million and USD 3,239 million, respectively. For the years ended December 31, 2010 and 2009, Farmers Exchanges' share of ceded premiums earned were USD 4,574 million and USD 4,722 million, respectively. Farmers Exchanges' share of ceding commissions was USD 1,418 million and USD 1,461 million for the years ended December 31, 2010 and 2009, respectively.

Consolidated financial statements *continued*

30. Segment information

The Zurich Insurance Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both businesses and geography. The Zurich Insurance Group's operating segments have been identified on the basis of the businesses operated by the Zurich Insurance Group and how these are strategically managed to offer different products and services to specific customer groups. Segment information is presented accordingly. The Zurich Insurance 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 are managed but not owned by Farmers Group, Inc. a wholly owned subsidiary of the Zurich Financial Services Group. This segment also includes all reinsurance assumed from the Farmers Exchanges by the Zurich Insurance 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.

The Zurich Insurance Group's new management structure effective July 1, 2010, reconfirmed the three core operating segments.

Other Operating Businesses predominantly consist of the Zurich Insurance 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 Zurich Insurance Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off.

The Zurich Insurance Group also manages its business on a geographic structure. The Zurich Insurance Group's identified regions are as follows:

Americas

Europe & Africa

Asia-Pacific & Middle East

Central Region

The segment information includes the Zurich Insurance Group's 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 and losses on investments and impairments (except for the capital markets operations included in Non-Core 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, charges for litigation outside the ordinary course of business and gains and losses on divestments of businesses.

Consolidated financial statements *continued*

Business operating profit by business segment

Table 30.1

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2010	2009	**2010**	2009
Revenues				
Direct written premiums and policy fees[1]	30,906	32,516	12,172	12,343
Assumed written premiums	2,161	1,641	120	97
Gross written premiums and policy fees	33,066	34,157	12,292	12,440
Less premiums ceded to reinsurers	(5,100)	(5,222)	(754)	(769)
Net written premiums and policy fees	27,966	28,935	11,539	11,672
Net change in reserves for unearned premiums	(129)	136	(26)	6
Net earned premiums and policy fees	27,837	29,071	11,513	11,677
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,913	3,191	4,390	4,032
Net investment income on Group investments	2,867	3,080	3,892	4,081
Net capital gains/(losses) and impairments on Group investments	46	110	498	(49)
Net investment result on unit-linked investments	–	–	9,639	11,697
Other income	709	852	918	854
Total BOP revenues	31,459	33,113	26,460	28,261
of which: inter-segment revenues	*(413)*	*(385)*	*(295)*	*(294)*
Benefits, losses and expenses				
Insurance benefits and losses, net	19,795	20,622	10,140	10,594
Losses and loss adjustment expenses, net	19,773	20,590	76	53
Life insurance death and other benefits, net	22	40	9,773	10,577
(Decrease)/increase in future life policyholders' benefits, net[1]	1	(8)	291	(36)
Policyholder dividends and participation in profits, net	3	15	10,302	12,018
Income tax expense/(benefit) attributable to policyholders	–	–	462	387
Underwriting and policy acquisition costs, net	5,396	5,493	1,503	1,145
Administrative and other operating expense (excl. depreciation/amortization)	3,134	3,184	1,883	1,827
Interest credited to policyholders and other interest	39	32	428	444
Restructuring provisions and other items not included in BOP	(306)	(170)	(179)	(119)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	28,061	29,177	24,539	26,296
Business operating profit (before interest, depreciation and amortization)	**3,398**	**3,937**	**1,922**	**1,965**
Depreciation and impairments of property and equipment	83	80	32	34
Amortization and impairments of intangible assets	398	177	303	346
Interest expense on debt	222	209	71	93
Business operating profit before non-controlling interests	2,695	3,470	1,516	1,492
Non-controlling interests	22	(3)	49	35
Business operating profit	**2,673**	**3,474**	**1,467**	**1,457**
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	299	474	96	405

[1] The Global Life segment includes approximately USD 1,514 million and USD 2,698 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Spanish operations for the years ended December 31, 2010 and 2009, respectively (see note 3).
[2] As outlined in note 1, business operating profit (BOP) has not been restated for the change in the current value of certain insurance liabilities and assets amounting to USD 1,006 million in order to ensure a fair reflection of sustainable operating profit and comparability.

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
–	–	–	–	389	566	–	(11)	43,467	45,414
4,194	6,615	137	142	142	134	(256)	(226)	6,498	8,403
4,194	6,615	137	142	531	700	(256)	(237)	49,965	53,817
–	–	(54)	(52)	(32)	(39)	256	237	(5,683)	(5,844)
4,194	6,615	84	90	499	661	–	–	44,282	47,973
1,380	(893)	–	–	2	5	(1)	–	1,227	(746)
5,574	5,722	84	90	502	666	(1)	–	45,509	47,227
2,778	2,690	–	–	–	–	–	–	2,778	2,690
156	174	532	485	594	414	(805)	(831)	7,781	7,466
156	174	532	485	379	452	(805)	(831)	7,021	7,443
–	–	–	–	215	(38)	–	–	760	23
–	–	–	–	454	778	–	–	10,093	12,475
91	85	756	1,106	153	183	(1,211)	(1,259)	1,416	1,822
8,600	8,672	1,372	1,682	1,703	2,042	(2,017)	(2,089)	67,577	71,682
(38)	*(90)*	*(1,159)*	*(1,312)*	*(113)*	*(77)*	*2,017*	*2,157*	–	–
3,708	3,904	72	86	769	(103)	–	–	34,484	35,103
3,708	3,904	2	5	62	49	–	38	23,620	24,639
–	–	69	82	683	656	–	1	10,548	11,356
–	–	–	–	24	(808)	–	(39)	316	(892)
–	–	–	–	496	826	(1)	–	10,801	12,859
–	–	–	–	–	–	–	–	462	387
1,733	1,760	6	12	8	10	(10)	(18)	8,636	8,403
1,900	1,311	961	914	126	91	(1,181)	(1,197)	6,823	6,131
1	–	2	1	40	52	(3)	(4)	507	525
(602)	(34)	(16)	110	27	1,165	–	–	(1,077)	951
6,739	6,941	1,025	1,124	1,467	2,040	(1,195)	(1,219)	60,636	64,359
1,860	**1,731**	**348**	**558**	**236**	**2**	**(822)**	**(870)**	**6,941**	**7,323**
65	86	20	35	3	3	–	–	204	237
109	82	64	38	–	–	–	–	874	644
–	8	1,181	1,219	77	107	(822)	(870)	728	767
1,686	1,554	(917)	(734)	156	(108)	–	–	5,136	5,675
66	63	–	3	1	1	–	–	138	97
1,620	**1,491**	**(918)**	**(737)**	**155**	**(108)**[2]	**–**	**–**	**4,997**	**5,577**
236	917	91	81	23	1	–	–	745	1,877

Consolidated financial statements *continued*

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	
	2010	2009	**2010**	2009
Business operating profit	**2,673**	**3,474**	**1,467**	**1,457**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	281	(753)	14	(441)
Net gain/(loss) on divestments of businesses	5	(2)	33	–
Restructuring provisions	(71)	(52)	(21)	(17)
Other adjustments	(235)	(118)	(158)	(103)
Add back:				
Business operating profit attributable to non-controlling interests	22	(3)	49	35
Net income before shareholders' taxes	**2,674**	**2,545**	**1,384**	**932**
Income tax expense/(benefit) attributable to policyholders	–	–	462	387
Net income before income taxes	**2,674**	**2,545**	**1,845**	**1,318**
Income tax expense (attributable to policyholders and shareholders)				
Net income after taxes				

[1] Business operating profit (BOP) has not been restated for the change in the current value of certain insurance liabilities and assets amounting to USD 1,006 million in order to ensure a fair reflection of sustainable operating profit and comparability (see note 1).
[2] Includes USD 570 million settlement costs related to the FOGEL case (see note 26).

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	1,620	**1,491**	**(918)**	**(737)**	**155**	**(108)**	**4,997**	**5,577**
	(9)	(50)	189	(285)	34	(145)	508	(1,674)
	–	–	–	–	1	(3)	38	(5)
	(17)	(27)	–	–	(1)	(2)	(111)	(97)
	(585)[2]	(7)	(16)	110	28	1,167[1]	(966)	1,049
	66	63	–	3	1	1	138	97
	1,074	**1,470**	**(744)**	**(909)**	**218**	**909**	**4,606**	**4,947**
	–	–	–	–	–	–	462	387
	1,074	**1,470**	**(744)**	**(909)**	**218**	**909**	**5,067**	**5,333**
							(1,389)	(1,532)
							3,678	**3,801**

Consolidated financial statements *continued*

Assets and liabilities by business segment

Table 30.3

in USD millions, as of December 31	General Insurance		Global Life	
	2010	2009	**2010**	2009
Assets				
Total Group Investments	85,967	85,384	100,983	101,033
Cash and cash equivalents	9,024	9,371	2,941	3,418
Equity securities	5,561	4,743	5,208	5,466
Debt securities	64,136	63,885	64,471	62,883
Real estate held for investment	2,940	3,004	4,893	4,408
Mortgage loans	1,495	1,483	8,538	9,021
Other loans	2,806	2,871	14,836	15,712
Equity method accounted investments	6	25	97	125
Holdings in related companies	–	–	–	–
Investments for unit-linked contracts	–	–	96,139	87,430
Total investments	85,967	85,384	197,122	188,462
Reinsurers' share of reserves for insurance contracts	13,314	12,957	1,997	2,160
Deposits made under assumed reinsurance contracts	116	66	11	3
Deferred policy acquisition costs	3,472	3,374	12,686	12,276
Deferred origination costs	–	–	866	856
Goodwill	869	1,029	411	442
Other intangible assets	1,208	1,419	3,022	4,000
Other assets[1]	14,747	15,369	7,367	7,300
Total assets (after cons. of investments in subsidiaries)	**119,693**	**119,597**	**223,482**	**215,500**
Liabilities				
Liabilities for investment contracts	–	–	50,912	46,374
Reserves for insurance contracts	80,170	79,900	138,536	136,256
Reserves for losses and loss adjustment expenses	63,826	63,476	58	35
Reserves for unearned premiums	15,050	15,191	201	302
Future life policyholders' benefits	103	98	74,901	74,760
Policyholders' contract deposits and other funds	1,192	1,135	13,397	14,691
Reserves for unit-linked contracts	–	–	49,978	46,468
Debt related to capital markets	–	–	–	–
Senior debt	5,152	3,462	457	265
Subordinated debt	1,700	2,054	793	1,019
Other liabilities	14,292	14,887	17,960	17,614
Total liabilities	**101,313**	**100,302**	**208,659**	**201,529**
Equity				
Common shareholders' equity				
Preferred securities				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				

[1] The General Insurance segment, includes assets held for sale of USD 67 million as of December 31, 2009, related to land and buildings formerly classified as held for own use.

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
4,526	4,561	22,533	20,170	11,714	11,777	(28,876)	(27,581)	196,846	195,344
808	734	9,294	8,188	2,328	2,520	(14,460)	(12,362)	9,935	11,869
83	85	2,952	1,845	231	511	–	–	14,035	12,650
1,296	1,302	4,070	2,959	6,943	6,434	(980)	(1,024)	139,936	136,439
135	149	45	46	261	181	–	–	8,274	7,789
–	–	–	–	–	–	–	(33)	10,032	10,472
2,204	2,290	6,080	7,129	1,871	2,055	(13,436)	(14,162)	14,361	15,896
–	–	5	3	80	76	–	–	188	229
–	–	86	–	–	–	–	–	86	–
–	–	–	–	11,808	11,737	–	–	107,947	99,167
4,526	4,561	22,533	20,170	23,522	23,514	(28,876)	(27,581)	304,794	294,510
212	211	–	(95)	4,328	4,812	(1,041)	(1,293)	18,809	18,751
2,201	3,158	–	–	530	664	(26)	(29)	2,832	3,861
167	529	–	–	1	2	–	–	16,326	16,181
–	–	–	–	–	–	–	–	866	856
819	821	5	5	–	–	–	–	2,104	2,297
1,453	1,397	269	219	–	–	–	–	5,952	7,035
1,202	1,547	2,728	1,738	1,044	1,336	(2,228)	(2,005)	24,861	25,285
10,581	**12,224**	**25,534**	**22,037**	**29,425**	**30,328**	**(32,170)**	**(30,908)**	**376,545**	**368,777**
–	–	–	–	–	–	(246)	(250)	50,667	46,124
2,711	3,946	57	365	22,194	22,903	(1,021)	(1,276)	242,646	242,094
1,938	1,793	46	49	2,953	3,531	(752)	(799)	68,069	68,086
773	2,153	5	5	25	33	(7)	(7)	16,046	17,676
–	–	6	311	4,569	4,572	(265)	(470)	79,315	79,271
–	–	–	–	2,839	3,030	2	1	17,430	18,857
–	–	–	–	11,807	11,736	–	–	61,786	58,204
–	–	623	553	1,624	1,769	(1,847)	(2,298)	400	25
–	–	23,574	23,368	838	1,082	(23,311)	(21,232)	6,710	6,945
–	–	6,820	9,066	23	–	(2,512)	(3,113)	6,824	9,026
2,024	1,801	2,348	1,625	2,397	2,361	(3,234)	(2,740)	35,787	35,549
4,735	**5,747**	**33,422**	**34,978**	**27,075**	**28,116**	**(32,170)**	**(30,908)**	**343,033**	**339,764**
								31,941	26,969
								–	–
								31,941	26,969
								1,570	2,045
								33,512	29,014
								376,545	**368,777**

Consolidated financial statements *continued*

Table 30.4

General Insurance – Revenues by region

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers	
	2010	2009
Global Corporate		
North America	2,670	2,685
Europe	4,089	4,298
Rest of Global Corporate	540	370
Subtotal	7,299	7,353
Europe & Africa		
United Kingdom	2,785	3,170
Germany	2,627	2,944
Switzerland	2,351	2,259
Italy	2,002	2,213
Spain	1,214	1,338
Southern Africa	634	650
Rest of Europe & Africa	1,663	1,899
Subtotal	13,276	14,473
Americas		
United States	8,976	9,189
Rest of North America	554	469
Latin America	1,374	1,353
Subtotal	10,905	11,012
Asia-Pacific & Middle East		
Asia-Pacific Mature Markets	1,292	1,070
China & South East Asia	254	229
Subtotal	1,546	1,299
Central Region		
Europe	3	2
Subtotal	3	2
Total	**33,029**	**34,138**

Table 30.5

General Insurance – Assets by region

in USD millions, as of December 31	Property / equipment and intangible assets	
	2010	2009
Europe & Africa		
United Kingdom	212	222
Germany	225	253
Switzerland	134	127
Italy	65	75
Spain	541	747
Southern Africa	25	22
Rest of Europe & Africa	1,245	1,437
Subtotal	2,447	2,883
Americas		
United States	232	216
Rest of North America	8	6
Latin America	183	164
Subtotal	424	386
Asia-Pacific & Middle East		
Asia-Pacific Mature Markets	114	93
China & South East Asia	27	24
Subtotal	141	117
Total	**3,012**	**3,385**

Table 30.6

Global Life - Revenues and assets by region

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers		Property, equipment and intangible assets	
	2010	2009	2010	2009
Revenues				
Americas	1,442	1,257	270	297
United Kingdom	1,519	1,089	410	446
Germany	3,695	3,379	911	1,020
Switzerland	1,542	1,606	157	198
Ireland	513	385	5	5
Spain	2,264	3,523	1,991	2,859
Emerging Markets in Asia	289	221	7	11
Rest of the world	948	909	160	163
Total	**12,212**	**12,369**	**3,912**	**4,998**

Consolidated financial statements *continued*

31. Events after the balance sheet date

On January 25, 2011 the general assemblies of Türk Ekonomi Bankası A.Ş. (TEB) and Fortis Bank A.Ş. (Fortis), two banks based in Turkey, approved the merger of Fortis into TEB by dissolution without liquidation. In addition to the Zurich Insurance Group's existing bancassurance partnership with TEB since 2008 and in anticipation of this merger the Zurich Insurance Group entered into a distribution agreement with Fortis on December 21, 2010. The consideration for this agreement comprises an initial payment of USD 26 million plus an earn-out component.

On February 21, 2011, the Zurich Insurance Group signed a memorandum of understanding with Banco Santander, S.A. (Santander), a banking group based in Spain, to acquire a 51% participation in its life insurance, pension and general insurance operations in Brazil, Mexico, Chile, Argentina and Uruguay. As part of the transaction, the Zurich Insurance Group will enter into a 25-year strategic distribution arrangement with Santander in Latin America. This transaction is a milestone in the implementation of the Zurich Insurance Group's emerging-market strategy in both Global Life and General Insurance, significantly expanding its presence in Latin America. The initial consideration amounts to USD 1.67 billion and is subject to purchase price and other adjustments. In addition, an earn-out component based on future performance under the distribution agreement and a protection mechanism against possible underachievement has been agreed. The transaction is expected to close by the first quarter of 2012 and is subject to applicable antitrust and insurance regulatory approvals, as well as other customary closing conditions.

Zurich Insurance Company Ltd has announced to fully repay to Zurich Financial Services Ltd the CHF 1.7 billion (USD 1.8 billion) subordinated loan and partially repay up to CHF 1.3 billion of the outstanding CHF 6.1 billion (USD 6.0 billion) subordinated loan in April 2011, in each case subject to regulatory approval. The CHF 6.1 billion loan is classified as an equity instrument under Zurich Insurance Group's consolidated financial statements as it meets the relevant classification criteria under IAS 32.

On February 28, 2011, Zurich Insurance Group announced that it has agreed to sell 25 percent of its investment in New China Life Insurance Co. to two undisclosed buyers reducing its total stake in the company to 15 percent.

On March 16, 2011, Zurich Insurance Group successfully closed the placement of CHF 500 million of undated subordinated debt (hybrid capital), first callable in 2018 to investors in the Swiss retail and institutional markets. The hybrid capital has been issued by Zurich Insurance Company Ltd under its Euro Medium Term Note Programme. The coupon has been set at 4.625 percent.

The Zurich Insurance Group is still assessing the various catastrophe events in the Asia-Pacific region, which occurred after the balance sheet date in the first quarter 2011. The first event occured in the Brisbane area, Australia, in January 2011 followed by cyclone Yasi in Queensland, Australia and the storm in Victoria, Australia, in early February. This was followed by an earthquake in the Christchurch area of New Zealand on February 22, 2011 and an earthquake near the Japanese coastline followed by the tsunami on March 11, 2011. Zurich Insurance Group is reviewing the impact of these events. Total incurred losses are not yet known, but a preliminary estimate is that the total costs of these five events is in the region of USD 500 million. Due to the nature and timing of the events this estimate has a high degree of uncertainty. The full loss assessment, and therefore the ultimate cost, will take time to complete due to the extreme nature of the losses and the limited access to the damaged areas in Japan and in New Zealand.

Report of the statutory auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Insurance Company Ltd

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Zurich Insurance Company 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 14 to 45 and 47 to 154), for the year ended December 31, 2010.

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, 2010 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

Ray Kunz Audit expert Auditor in charge	Patrick Shouvlin Global relationship partner

Zurich, March 30, 2011

Significant subsidiaries

Significant subsidiaries

as of December 31, 2010	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
Zurich Financial Services Australia Limited	Sydney	General Insurance	100	100	AUD	22.8
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						
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	General Insurance	100	100	BRL	359.7
Chile						
Chilena Consolidada Seguros Generales S.A.	Santiago	General Insurance	89.87	89.87	CLP	10,267.0
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.98	98.98	CLP	24,484.0
Cyprus						
Zurich Insurance Holding (Cyprus) Ltd[2]	Nicosia	General Insurance	100	100	RUB	2.7
Germany						
Deutscher Herold Aktiengesellschaft[3]	Bonn	Global Life	79.83	79.83	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt/Main	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	86.37	86.37	EUR	68.5
Ireland						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	8.2
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

[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 wholly owned subsidiary of the Zurich Financial Services Group.
[3] In addition buy out options exist which allow the minority shareholders to sell another 15.17 percent of the shares of Deutscher Herold Aktiengesellschaft to the Zurich Financial Services Group.

Significant subsidiaries (continued)

as of December 31, 2010	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Luxembourg						
Zurich Eurolife S.A.	Howald	Global Life	100	100	EUR	12.0
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	5.03
South Africa						
Zurich Insurance Company South Africa Limited[4]	Johannesburg	General Insurance	58.95	58.95	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
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Global Life	100	100	EUR	50.4
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	17.0
Zurich Life Insurance Company Ltd[5]	Zurich	Other Operating Businesses	100	100	CHF	60.0
"Zurich" Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	99.73	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	Fındıklı, Istanbul	General Insurance	100	100	TRY	83.5
United Kingdom						
Allied Zurich Holdings Limited	Jersey, Channel Islands	Other Operating Businesses	100	100	GBP	90.7
Eagle Star Insurance Company Limited	Fareham, England	Non-Core Businesses	100	100	GBP	40.0
Sterling ISA Managers Limited	Swindon, England	Global Life	100	100	GBP	92.9
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 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

[4] Listed on the Johannesburg Stock Exchange. On December 31, 2010, the company had a market capitalization of ZAR 2.2 billion (ISIN Number 000094496).
[5] The result of the operative activities is included in the Global Life segment, whereas the headquarter's activities are part of Other Operating Businesses.

Significant subsidiaries *continued*

Significant subsidiaries (continued)

as of December 31, 2010	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
United States of America						
Farmers Group, Inc.[6]	Reno, NV	Farmers	87.90	95.38	USD	0.001
Farmers New World Life Insurance Company[6]	Mercer Island, WA	Global Life	87.90	95.38	USD	6.6
Farmers Reinsurance Company[6]	Los Angeles, CA	Farmers	87.90	95.38	USD	5.0
Farmers Services LLC[7]	Wilmington, DE	Farmers	100	100	USD	–
Zurich American Corporation	Wilmington, DE	Non-Core Businesses	100	100	USD	0.00001
Zurich American Life Insurance Company	Schaumburg, IL	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	0.0

[6] The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of Zurich Insurance Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
[7] These entities are Limited Liability Companies (LLC) that have no share capital.

Financial statements – statutory accounts

Board of Directors and auditors as of December 31, 2010

Board of Directors and auditors

	Residence	Expiration of current term of office
Zurich Insurance Company Ltd Board of Directors		
Manfred Gentz, Chairman	Berlin, Germany	2011
Josef Ackermann, Vice Chairman	Frankfurt, Germany	2012
Susan Bies	Landrum, SC, USA	2013
Victor Chu	Hong Kong, China	2013
Thomas Escher	Uitikon, Switzerland	2012
Manfred Kindle	London, UK	2011
Armin Meyer	Erlenbach, Switzerland	2013
Donald Nicolaisen	Califon, NJ, USA	2012
Vernon Sankey	Farnham Common, UK	2012
Tommy de Swaan	Amsterdam, Netherlands	2011
Rolf Watter	Thalwil, Switzerland	2013
Hans-Ulrich Schoch, Secretary to the Board of Directors		
Auditors		
PricewaterhouseCoopers AG		

Fritz Gerber is the Honorary Chairman of Zurich Insurance Company Ltd. He was chairman of Zurich Insurance Company Ltd between 1977 and 1995 and its chief executive officer between 1977 and 1991. In recognition of his leadership and services to the 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.

Principal activity and review of the year

Zurich Insurance Company Ltd (ZIC or the Company) was incorporated on November 1, 1872, and is the principal operating insurance company of the Zurich Financial Services Ltd (ZFS) Group. As well as being an insurance company, it also acts as the holding company for all subsidiaries and other affiliates of the ZFS Group except ZFS's banking business.

The results of ZIC include the direct non-life business in Switzerland and its branches mainly located in Canada, Japan and China as well as assumed reinsurance business from subsidiaries.

With effect from January 1, 2010, ZIC sold all of its insurance business conducted through its Italian branch to the Italian branch of Zurich Insurance plc (ZIP), a subsidiary of ZIC incorporated in the Republic of Ireland, by way of a portfolio transfer approved by the Italian Insurance Regulator ISVAP on October 19, 2009. Based on this circumstance prior year results include the direct business of ZIC's Italy branch.

A new tax legislation based on the Swiss Corporate Tax reform II became effective as of January 1, 2011. It allows payments free of Swiss withholding tax to shareholders out of a new capital contribution reserve. Therefore CHF 5,569 million of the General free reserve has been reclassified to the new capital contribution reserve.

Financial statements – statutory accounts *continued*

Key figures

in CHF millions, for the years ended December 31	2010	2009
Gross written premiums and policy fees, general insurance direct business	4,511	6,625
Gross written premiums and policy fees, assumed reinsurance	18,951	18,400
Total gross written premiums and policy fees	23,462	25,025
Net written premiums and policy fees	21,126	22,497
Net earned premiums and policy fees	20,401	21,512
Insurance benefits and losses, net of reinsurance	(14,231)	(15,663)
Underwriting and policy acquisition costs, administrative and other operating expense	(6,120)	(6,376)
Underwriting result, net	(61)	(737)
Net investment income	4,287	2,318
Net income after tax	4,141	1,790
Total investments	68,948	70,962
Insurance reserves, net	33,886	38,314
Shareholders' equity (after proposed appropriation of available earnings)	18,986	14,844

Net income

Net income after tax increased by CHF 2,351 million to CHF 4,141 million or by 131 percent principally as a result of an increase of CHF 2,072 million in dividends from investments in subsidiaries and associates. The gains in the year included CHF 336 million from the transfer of the assets and liabilities at market value from the Company's Italy branch to ZIP.

The combined ratio improved 3 percentage points compared to 2009. The reason for this improvement was a lower loss ratio whereas the expense ratio remained stable compared to 2009.

Gross written premiums and policy fees

Gross written premiums and policy fees decreased by CHF 1,562 million, or 6 percent, to CHF 23,462 million for the year ended December 31, 2010. In local currency gross written premiums and policy fees decreased by 2 percent.

General insurance direct business gross written premiums and policy fees decreased by 32 percent to CHF 4,511 million principally because of the transfer of business from ZIC's Italy branch to ZIP. Assumed reinsurance increased by 3 percent as more reinsurance was assumed from ZIP, partially offset by the change in the quota share agreement with the Farmers Exchanges.

Balance sheet

Total investments reduced by CHF 2,015 million to CHF 68,948 million or by 3 percent as the impact of the transfer of the Italian branch business was offset by the increase in cash dividends received from subsidiaries. Insurance reserves also reduced as a result of the transfer of the Italian branch business.

Income statements

Income statements

in CHF millions, for the years ended December 31	Notes	2010	2009
Revenues			
Gross written premiums and policy fees		23,462	25,025
Less premiums ceded to reinsurers		(2,336)	(2,528)
Net written premiums and policy fees		21,126	22,497
Net change in reserves for unearned premiums		(725)	(985)
Net earned premiums and policy fees		20,401	21,512
Net investment income	4	4,287	2,318
Net realized capital gains/(losses) on investments and write-downs	5	804	(294)
Other income	6	926	2,007
Total revenues		26,418	25,544
Benefits, losses and expenses			
Insurance benefits and losses, net of reinsurance	7	(14,231)	(15,663)
Policyholder dividends and participation in profits, net of reinsurance		(19)	(97)
Underwriting and policy acquisition costs, net of reinsurance		(5,343)	(5,343)
Administrative and other operating expense		(777)	(1,034)
Other expense	8	(1,271)	(807)
Interest expense on debt		(467)	(687)
Interest credited to policyholders and other interest		(73)	(78)
Total benefits, losses and expenses		(22,181)	(23,708)
Net income before taxes		**4,237**	**1,836**
Taxes		(96)	(46)
Net income after taxes		**4,141**	**1,790**

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

Financial statements – statutory accounts *continued*

Balance sheets

Assets

in CHF millions, as of December 31	Notes	2010	2009
Investments			
Cash and cash equivalents		5,184	6,844
Equity securities		1,699	1,951
Debt securities		27,773	27,665
Real estate		1,367	1,588
Mortgage loans		1,319	1,415
Policyholders' collateral and other loans		1,939	2,801
Investments in subsidiaries and associates	9	28,880	27,967
Derivative assets		787	731
Total Investments		**68,948**	**70,962**
Other assets			
Deposits made under assumed reinsurance contracts		3,961	5,583
Accrued assets		549	528
Receivables from agents and outstanding premiums		330	980
Receivables from insurance and reinsurance companies		1,664	1,831
Other receivables	10	1,960	855
Furniture and equipment	11	105	181
Intangible assets	12	688	865
Other assets		17	10
Total other assets		**9,274**	**10,832**
Total assets		**78,222**	**81,795**

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

Liabilities and shareholders' equity

in CHF millions, as of December 31	Notes	2010	2009
Short-term liabilities			
Deposits received under ceded reinsurance contracts		580	809
Amounts due to reinsurance and other insurance companies		1,105	1,251
Prepaid premiums and other creditors		1,272	1,789
Bank overdrafts		62	82
Accrued liabilities		501	671
Other liabilities		1,187	1,271
Total short-term liabilities		4,707	5,873
Long-term liabilities			
Provisions	13	734	662
Senior debt	14	10,669	11,127
Subordinated debt	14	9,241	10,974
Total long-term liabilities		20,644	22,763
Insurance reserves, net	15	**33,886**	**38,314**
Total liabilities		**59,236**	**66,951**
Shareholders' equity (before appropriation of available earnings)			
Share capital (fully paid)	16	825	825
Profit sharing certificates		p.m.	p.m.
Legal reserves			
General legal reserve		*485*	*485*
Capital contribution reserve	*17*	*5,569*	*–*
General free reserve	17	4,272	9,841
Retained earnings:			
As of January 1		*3,693*	*1,904*
Net income		*4,141*	*1,790*
Retained earnings, as of December 31		7,835	3,693
Total shareholders' equity (before appropriation of available earnings)		**18,986**	**14,844**
Total liabilities and shareholders' equity		**78,222**	**81,795**

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

Financial statements – statutory accounts *continued*

Notes to the financial statements

1. Basis of presentation

The Company's financial statements are presented in accordance with Swiss Company Law and relevant regulatory insurance law.

The reporting currency for ZIC is the Swiss franc. All amounts are rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add up to the rounded total in all cases.

2. Summary of significant accounting policies

a) Investments

Equity securities which are quoted on a stock exchange are carried at the average stock exchange price during the month of December. Unquoted equity securities are carried at a maximum of the acquisition cost with a deduction for necessary value adjustments. In cases where the value of the unquoted equity security held by branches located in Switzerland subsequently increases compared with the impaired value, the increase up to original acquisition cost is recognized in income. Unquoted equity securities held by branches located outside Switzerland remain at the impaired value, even if the value of the security subsequently improves.

Debt securities held by branches located in Switzerland are carried at amortized cost using the effective interest rate method. Debt securities held by branches located outside Switzerland are valued at the lower of cost or market value, i.e. at acquisition cost or market value if the latter is lower at the end of the financial year.

Real estate held for investment and for own use is carried at local statutory values that are valid in the country where the real estate is located.

Investments in subsidiaries and associates are held at acquisition cost less necessary impairments.

Mortgage and other loans are valued at a maximum of their nominal value less any necessary impairments.

Derivative financial instruments held for economic hedging are carried at fair value. Other derivative financial instruments are carried at amortized cost in accordance with the Swiss supervisory law.

Realized capital gains/(losses) on investments occur when the sale price or redemption value is higher or lower than the carrying value at the time of sale. The gain is determined from the difference between the acquisition cost and the sale prices and by the extent of write-downs on these investments since acquisition. Hence, some of the gains include the reversal of write-downs from previous years.

Write-downs and write-ups on investments include losses arising from a decrease in the fair value below cost or carrying value at the previous year end of equity securities and debt securities held by branches located outside Switzerland, and other than temporary write-downs on debt securities held by branches located in Switzerland. Write-ups on investments are gains on quoted equity securities as a result of changes in the average stock exchange price during December and the lower book value at the beginning of the year. Write-ups also include gains as a result of the reversal of impairments on unquoted equity securities held by branches located in Switzerland up to the original acquisition cost value.

b) Accrued assets

This amount relates primarily to interest income accruals, other prepaid expenses and other accrued income.

c) Deposits made under assumed reinsurance contracts

Reinsurance deposits consist of funds deposited with ceding insurers to guarantee contractual liabilities for assumed reinsurance.

d) Insurance reserves

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. In addition, equalization reserves are included where these are accepted by the regulator in the country where such reserves are held. 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. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed.

Reserves for unearned premiums represent the portion of the premiums written relating to the unexpired term of insurance coverage. In many insurance contracts, the insurance period for which the insurance company assumes a risk against a premium paid in advance does not correspond to the company’s financial year. Premium received will not be fully earned in the financial year if the insurance period extends beyond year end. Thus, an amount equivalent to the unearned premium is set up as a reserve at the end of the financial year.

Financial statements – statutory accounts *continued*

3. Exchange rates

The presentation currency for ZIC and its branches is Swiss franc. Several ZIC branches operate outside Switzerland with different functional currencies. A functional currency is the currency of the primary economic environment in which the branch operates. Assets and liabilities of those branches with functional currencies other than Swiss franc are translated into the presentation currency at end-of-period exchange rates, except for investments in subsidiaries and associates where historical exchange rates are used. Revenues and expenses are translated using the exchange rate at the date of the transaction or the average rate of the year. The resulting exchange differences are recorded in income.

The table below summarizes the principal exchange rates that have been used for translation purposes.

Principal exchange rates

CHF per foreign currency unit, as of or for the years ended December 31	Balance sheets		Income statements	
	2010	2009	**2010**	2009
Canadian dollar (CAD)	0.94	0.99	1.01	0.95
Euro (EUR)	1.25	1.49	1.38	1.51
British pound (GBP)	1.46	1.68	1.61	1.70
US dollar (USD)	0.93	1.04	1.04	1.08

4. Net investment income

Net investment income

in CHF millions, for the years ended December 31	**2010**	2009
Cash and cash equivalents	22	36
Equity securities	20	34
Debt securities	947	1,015
Real estate	88	95
Mortgage loans	35	41
Policyholders' collateral and other loans	103	109
Investments in subsidiaries and associates	3,081	1,009
Other investments	(8)	(21)
Total net investment income[1]	**4,287**	**2,318**

[1] Net investment income includes investment expenses of CHF 27 million and CHF 21 million for the years ended December 31, 2010 and 2009 respectively.

Total net investment income increased by CHF 1,969 million or 85 percent to CHF 4,287 million in 2010. Investment income on debt securities decreased by CHF 68 million or 7 percent to CHF 947 million, mainly due to lower interest rates and decreased debt securities during the year because investments were transferred to ZIP's Italian branch. Dividend income from subsidiaries and associates increased by CHF 2,072 million to CHF 3,081 million in 2010. The most significant dividends received in 2010 were from Zurich Holding Ireland Limited with CHF 1,422 million and Farmers Group, Inc. with CHF 1,173 million.

5. Net realized capital gains/(losses) on investments, write-ups and write-downs

Net realized capital gains/(losses) on investments and write-downs

in CHF millions, for the years ended December 31	Realized gains		Realized losses		Write-ups and write-downs		Totals	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Cash and cash equivalents	–	–	(1)	–	–	–	(1)	1
Equity securities	405	76	(115)	(35)	162	303	451	344
Debt securities	417	223	(124)	(176)	(15)	(14)	278	33
Real estate	55	25	(1)	(1)	(3)	(4)	51	21
Mortgage loans	–	–	–	–	–	1	–	1
Policyholders' collateral and other loans	–	2	–	(4)	–	–	–	(3)
Investments in subsidiaries and associates	–	–	–	(111)	(44)	(460)	(44)	(571)
Other investments	152	135	(82)	(253)	–	–	69	(118)
Total net realized capital gains/(losses) on investments, write-ups and write-downs	**1,028**	**461**	**(324)**	**(580)**	**100**	**(174)**	**804**	**(294)**

Realized capital gains increased by 123 percent to CHF 1,028 million, while realized capital losses decreased by 44 percent to CHF 324 million in 2010. Realized capital gains on equity securities include a gain due to a sale of New China Life Insurance Co., Ltd. (NCI) shares within the Zurich Insurance Group. Write-ups and write-downs increased by CHF 274 million from write-downs of CHF 174 million in 2009 to write-ups of CHF 100 million in 2010. This is mainly due to last year's write-down on investments in subsidiaries, including a pre-merger write-down on BG Investments Ltd, write-downs on ZG Investments Ltd and "Zürich" Finanz-Gesellschaft AG compared with a write-down on Zurich Insurance Holding (Cyprus) Ltd of CHF 50 million in 2010. Equity securities were written up by CHF 162 million compared with a write-up of CHF 303 million in 2009, which included the one time effect of the change in accounting principle for quoted equity securities of CHF 363 million as described in last year's annual report.

6. Other income

Other income include interest income on reinsurance deposits as well as other technical and other non-technical income. Prior year figures include the gain of CHF 994 million due to the transfer of ZIC's UK branch to the UK branch of ZIP.

7. Insurance benefits and losses

Insurance benefits and losses

in CHF millions, for the years ended December 31	**2010**	2009
Loss payments, annuities and claims handling expenses, gross	(13,518)	(13,866)
Reinsurers' share	1,449	1,075
Loss payments, annuities and claims handling expenses, net	(12,069)	(12,791)
Change in reserves for losses and loss adjustment expenses, net	(2,163)	(2,872)
Total insurance benefits and losses, net of reinsurance	**(14,231)**	**(15,663)**

Total insurance benefits and losses decreased by CHF 1,432 million to CHF 14,231 million mainly as a result of the business transfer of ZIC's Italy branch to ZIP.

8. Other expense

Other expense include foreign currency transaction gains and losses, amortization and impairments on software, property and equipment and other non-technical expenses. Net results on foreign currency transactions were a loss of CHF 415 million compared with a loss of CHF 554 million in 2009, Other expense of the year 2009 included a positive effect of CHF 440 million as a result of the transfer of ZIC's UK branch to the UK branch of ZIP and lower impairments on software.

Financial statements – statutory accounts *continued*

9. Investments in subsidiaries and associates

The table below shows the significant subsidiaries of ZIC with a carrying value of at least CHF 500 million and/or net income exceeding CHF 100 million. The carrying value of the listed subsidiaries and associates represents 88 percent of the total investments in subsidiaries and associates of CHF 28,880 million.

Significant subsidiaries

as of December 31, 2010	Domicile	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Austria					
Zürich Versicherungs-Aktiengesellschaft[1]	Vienna	99.98	99.98	EUR	12
Bermuda					
CMSH Limited	Hamilton	100	100	USD	0.3
ZG Investments Ltd.	Hamilton	100	100	USD	0.01
ZG Investments IV Ltd.	Hamilton	100	100	USD	0.01
Zurich Finance (Bermuda) Ltd.	Hamilton	100	100	USD	0.01
Zurich International (Bermuda) Ltd.	Hamilton	100	100	USD	9.9
Cyprus					
Zurich Insurance Holding (Cyprus) Ltd[1]	Nicosia	100	100	RUB	2.7
Germany					
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt/Main	82.6	82.6	EUR	152.9
Ireland					
Zurich Holding Ireland Limited	Dublin	100	100	EUR	0.1
Zurich Insurance plc[1]	Dublin	4.5	4.5	EUR	8.2
Italy					
Zurich Investments Life S.p.A.	Milan	100	100	EUR	74
Switzerland					
"Zurich" Investment Management AG	Zurich	20	20	CHF	10
Zurich Life Insurance Company Ltd	Zurich	100	100	CHF	60
United Kingdom					
Allied Zurich Holdings Limited	Jersey, Channel Islands	100	100	GBP	90.7
United States of America					
Farmers Group, Inc.[2]	Reno, NV	87.9	95.4	USD	0.001
Zurich Holding Company of America, Inc.	Wilmington, DE	99.9	99.9	USD	0.0

[1] Compared to the prior year, Zürich Versicherungs-Aktiengesellschaft, Zurich Insurance Holding (Cyprus) Ltd and Zurich Insurance Plc are new on the list of significant subsidiaries. ZG Investments III Ltd., which was mentioned last year, no longer meets the significance criteria.
[2] The ownership percentages in Farmers Group, Inc. have been calculated based on the participation rights of ZIC in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.

10. Other receivables

The significant increase in other receivables is due to the purchase of 280 million newly emitted NCI shares, which were paid but not yet delivered and the sale of NCI shares within the Zurich Insurance Group, for which the payment was outstanding at year end. A further increase is due to higher receivables under reverse repos with The Swiss National Bank.

11. Furniture and equipment

Furniture and equipment

in CHF millions, as of December 31	2010	2009
Cost value of furniture and equipment	344	492
Accumulated amortization	(239)	(312)
Total furniture and equipment	**105**	**181**

The decrease in Furniture and equipment is mainly due to the transfer of ZIC's Italy branch to ZIP and the sale of IT equipment related to the outsourcing of the data processing center in Switzerland.

12. Intangible assets

Intangible assets

in CHF millions, as of December 31	2010	2009
Brand names, patents, trademarks etc.	270	327
Software	419	538
Total intangible assets	**688**	**865**

The decrease in brand names, patents and trademarks resulted from amortization charges in the year. The decrease in software mainly arose from amortization and impairment of internal software development costs.

13. Provisions

These consist mainly of provisions to cover obligations relating to administrative and sales staff and to currency fluctuations. These reserves were created in view of expected, estimated or perceived expenditures or exposures.

14. Debt

a) Senior debt

Senior debt

in CHF millions, as of December 31		2010	2009
Issuances to capital markets	3.875% CHF 1,000 million, due July 2011	1,000	1,000
Issuances to capital markets under the EMTN Programme[1]	3.75% CHF 500 million, due September 2013	500	500
Senior debt with ZFS Group	various	9,169	9,419
Other	various	–	209
Total senior debt		**10,669**	11,127

[1] Euro Medium Term Note (EMTN) Programme

Financial statements – statutory accounts *continued*

b) Subordinated debt

Subordinated debt

in CHF millions, as of December 31		2010	2009
Zurich Financial Services Ltd	5.41% CHF 4,000 million perpetual loan	–	4,000
Zurich Financial Services Ltd	5.41% CHF 1,700 million perpetual loan	1,700	–
Zurich Financial Services Ltd	6.30% CHF 6,132 million perpetual loan	6,132	6,132
Issuances to capital markets under the EMTN Programme[1]	4.25% CHF 700 million undated loan, first call date May 26, 2016	700	–
Issuances to capital markets under the EMTN Programme[1]	7.5 % EUR 425 million subordinated notes, callable July 2019, due July 2039	529	629
Issuances to capital markets under the EMTN Programme[1]	12 % EUR 143 million fixed rate until July 15, 2014, 3 months Euribor + 10.33 % thereafter, undated, first call date July 15, 2014	179	213
Total subordinated debt		**9,241**	**10,974**

[1] Euro Medium Term Note (EMTN) Programme

15. Insurance reserves gross and ceded

Insurance reserves

in CHF millions, as of December 31	2010	2009
Gross		
Reserves for losses and loss adjustment expenses	28,854	31,672
Reserves for unearned premiums	4,537	5,449
Future life policyholders' benefits	4,904	5,434
Policyholders' contract deposits and other funds	993	1,034
Reserve for premium refunds and other insurance reserves	397	479
Total insurance reserves, gross	**39,686**	**44,068**
Ceded		
Reserves for losses and loss adjustment expenses	(4,976)	(4,932)
Reserves for unearned premiums	(735)	(719)
Future life policyholders' benefits	(88)	(95)
Policyholders' contract deposits and other funds	(2)	(8)
Total insurance reserves, ceded	**(5,800)**	**(5,754)**
Net		
Reserves for losses and loss adjustment expenses	23,879	26,740
Reserves for unearned premiums	3,802	4,731
Future life policyholders' benefits	4,817	5,339
Policyholders' contract deposits and other funds	991	1,026
Reserve for premium refunds and other insurance reserves	397	479
Total insurance reserves, net	**33,886**	**38,314**

Total insurance reserves, net, decreased by 12 percent to CHF 33,886 million, mainly due to the transfer of the business of ZIC's Italy branch to ZIP.

16. Share capital

Share capital and profit sharing certificates

number of shares, as of December 31	2010	2009
Contingent and issued share capital, CHF 10 par value	86,000,000	86,000,000
Issued share capital, CHF 10 par value	82,500,000	82,500,000
Profit sharing certificates (Genussscheine)[1]	2	2

[1] These profit sharing certificates confer on their holder the right to receive a dividend if and to the extent the General Meeting decides. However, they do not confer on their holder any voting rights or rights associated thereto, any rights to subscribe for new shares, or any rights to liquidation proceeds.

a) Issued share capital

As of December 31, 2010 and 2009, ZIC had issued share capital of CHF 825,000,000, consisting of 82,500,000 issued and fully paid registered shares of CHF 10 par value each.

b) Contingent share capital

At the General Meeting of Shareholders on June 11, 1997, contingent share capital of CHF 35,000,000, or 3,500,000 shares with a par value of CHF 10 each, was created, of which 2,500,000 shares can be issued in connection with the granting of conversion and/or option rights, and 1,000,000 shares can be issued for the purpose of employees' share ownership plans. None of the contingent shares have been issued as of December 31, 2010.

c) Profit sharing certificates

As of December 31, 2010 and 2009, ZIC had issued two profit sharing certificates with no par value.

d) Shareholders

As of December 31, 2010 and 2009, 100 percent of the registered shares of Zurich Insurance Company Ltd were owned by Zurich Financial Services Ltd.

17. Capital contribution reserve

As of January 1, 2011 a new Swiss tax regulation became effective, allowing for payments free of Swiss withholding tax to shareholders out of a new capital contribution reserve, created out of additional paid in capital since January 1, 1997. The Federal Tax Administration has approved that CHF 5,568,595,396 of capital contribution qualifies under this law. As a consequence ZIC has reclassified CHF 5,568,595,396 from the General free reserve to the Capital contribution reserve.

18. Assets and liabilities relating to companies within the Zurich Financial Services Group

Assets and liablities relating to companies within the Zurich Financial Services Group

in CHF millions, as of December 31	2010	2009
Assets[1]		
Cash and cash equivalents	3,434	3,786
Debt securities	14	16
Policyholders' collateral and other loans	1,858	2,769
Other investments	172	61
Deposits made under assumed reinsurance contracts	1,735	2,090
Accrued assets	164	191
Receivables from agents and outstanding premiums	3	4
Receivables from insurance and reinsurance companies	1,009	1,119
Other receivables	658	466
Liabilities[2]		
Deposits received under ceded reinsurance contracts	(2)	(13)
Amounts due to reinsurance and other insurance companies	(708)	(796)
Prepaid premiums and other creditors	(164)	(288)
Accrued liabilities	(94)	(105)
Other liabilities	(557)	(961)
Senior debt	(9,169)	(9,419)
Subordinated debt	(7,832)	(10,132)

[1] The amounts receivable from shareholders in 2010 are CHF 2,028 million compared with CHF 2,090 million in 2009
[2] The amounts due to shareholders in 2010 are CHF 8,452 million compared with CHF 10,830 million in 2009

Financial statements – statutory accounts *continued*

19. Supplementary information

Supplementary information

in CHF millions, as of December 31	2010	2009
Guarantees, indemnity liabilities and pledges in favor of third parties[1]	14,150	14,445
Pledged assets in respect of securities lending agreements (at market value)	1,904	1,750
Leasing obligations not recorded on the balance sheet	59	36
Fire insurance value of real estate, furniture and equipment	2,209	2,507
Balances due to pension funds	–	23
Personnel expenses (included in underwriting and policy acquisition costs, administrative and expense lines of the income statements)[2]	1,012	702

[1] Previous year figures do not include the second warranter's part of solidary guarantees in the amount of CHF 1,658 million and therefore would have amounted to CHF 16,103 million.
[2] Due to refined definition of personnel expenses in 2010, for comparison, prior year figures would have amounted to CHF 1,054 million.

Guarantees decreased by CHF 295 million to CHF 14,150 million in 2010. Pledged assets increased due to a higher amount of securities lending agreements compared with the prior year.

In addition to guarantees qualified above, the Company has provided unlimited guarantees in support of various subsidiaries belonging to the Zurich Insurance Group.

According to regulatory requirements, as of December 31, 14 percent and 19 percent of total investments are attributed to tied assets for 2010 and 2009 respectively.

20. Net release of hidden reserves

The net release of hidden reserves in 2010 of CHF 97 million primarily relates to the business transfer of ZIC's Italy branch to ZIP. The release of CHF 1,325 million in 2009 was a result of the business transfer of ZIC's UK branch to ZIP.

21. Information on the risk assessment process

Refer to the disclosures in the Risk Review on pages 14 to 45 of this Annual Report.

22. Subsequent events

The Company is still assessing the various catastrophe events in the Asia-Pacific region, which occurred after the balance sheet date in the first quarter 2011. The first event occured in the Brisbane area, Australia, in January 2011 followed by cyclone Yasi in Queensland, Australia and the storm in Victoria, Australia, in early February. This was followed by an earthquake in the Christchurch area of New Zealand on February 22, 2011 and an earthquake near the Japanese coastline followed by the tsunami on March 11, 2011. ZIC is reviewing the impact of these events. Total incurred losses are not yet known. While a preliminary estimate of total costs for these five events is available for the Zurich Insurance Group, no estimate is available for ZIC, as an allocation to legal carriers, taking into consideration internal reinsurance structures, requires further assessments. The ultimate cost, will take time to complete due to the extreme nature of the losses and the limited access to the damaged areas particularly in Japan but also in New Zealand.

On March 16, 2011, the Company successfully closed the placement of CHF 500 million of undated subordinated debt (hybrid capital), first callable in 2018 to investors in the Swiss retail and institutional markets. The hybrid capital has been issued under the Euro Medium Term Note Programme. The coupon has been set at 4.625 percent.

ZIC has announced to fully repay to Zurich Financial Services Ltd the CHF 1,700 million subordinated loan and partially repay up to CHF 1,300 million of the outstanding CHF 6,132 million subordinated loan in April 2011, in each case subject to regulatory approval.

Appropriation of available earnings as proposed by the Board of Directors

as of December 31	2010	2009
Dividend-paying registered shares		
Dividend-paying shares	82,500,000	82,500,000

in CHF, as of December 31	2010 (Proposed)	2009 (Approved)
Appropriation of available earnings as proposed by the Board of Directors		
Balance brought forward	3,693,094,428	1,903,503,273
Net income for the year	4,141,488,687	1,789,591,155
Retained earnings	**7,834,583,115**	**3,693,094,428**
Balance carried forward	**7,834,583,115**	**3,693,094,428**

The Board of Directors proposes to the shareholders at the Annual General Meeting to carry forward available earnings of CHF 7,834,583,115 as shown in the above table.

On behalf of the Board of Directors of Zurich Insurance Company Ltd

Manfred Gentz

Chairman

Zurich, March 31, 2011

Report of the statutory auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Insurance Company Ltd, Zurich

As statutory auditor, we have audited the financial statements of Zurich Insurance Company Ltd, which comprise the income statement, balance sheet and notes (pages 163 to 174), for the year ended December 31, 2010.

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, 2010 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 175) 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	Emel Can-Harrison
Audit expert	Audit expert
Auditor in charge	

Zurich, March 31, 2011

Key data of Zurich Insurance Company Ltd

Key data of Zurich Insurance Company Ltd

Key data 2001–2010

in CHF millions, for the years ended or as of December 31, respectively	**2010**	2009
Gross written premiums and policy fees, general insurance direct business	4,511	6,625
Gross written premiums and policy fees, assumed reinsurance	18,951	18,400
Total gross written premiums and policy fees	23,462	25,025
Net written premiums and policy fees	21,126	22,497
Net earned premiums and policy fees	20,401	21,512
Insurance benefits and losses, net of reinsurance	(14,231)	(15,663)
Underwriting and policy acquisition costs, administrative and other operating expense	(6,120)	(6,376)
Underwriting result, net	(61)	(737)
Net investment income	4,287	2,318
Net income after tax	4,141	1,790
Dividend	–	–
Dividend per share, nominal value CHF 10.– (in Swiss francs)	–	–
Total investments	68,948	70,962
Insurance reserves, net	33,886	38,314
Shareholders' equity (after proposed appropriation of available earnings)	18,986	14,844

[1] Capital increase of ZIC by CHF 1,700 million.
[2] Restated figures, implementation of new and revised accounting standards in 2005, in particular applying new definitions of insurance contracts.

2008	2007	2006	2005[2]	2004	2003	2002	2001
11,410	12,252	26,770	25,511	23,337	22,351	21,061	12,364
15,195	13,164	333	305	305	484	1,740	5,985
26,605	25,415	27,103	25,816	23,642	22,835	22,801	18,349
24,063	22,645	22,695	21,088	19,772	18,770	17,439	13,312
22,869	22,504	22,768	21,371	19,759	18,388	15,519	11,650
(17,172)	(16,395)	(15,631)	(16,061)	(13,858)	(13,570)	(12,711)	(10,123)
(6,331)	(6,392)	(5,848)	(5,242)	(4,929)	(4,962)	(4,757)	(2,689)
(714)	(222)	1,247	82	615	(510)	(2,518)	(1,437)
3,967	4,173	2,910	2,067	2,268	2,125	3,750	2,045
656	1,401	2,437	969	1,048	524	(873)	(1,067)
–	1,900	1,300	–	–	–	–	–
–	23.03	15.76	–	–	–	–	–
78,520	73,179	72,013	64,177	55,459	50,249	46,111	40,737
43,729	45,275	42,651	38,856	32,647	30,690	26,764	22,596
11,805	8,929	9,428	8,291	7,322	6,274	5,750 [1]	4,923

Disclaimer and cautionary statement

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Zurich Insurance Group

Mythenquai 2
8002 Zurich, Switzerland
Phone +41 (0)44 625 25 25
www.zurich.com

46930-1104