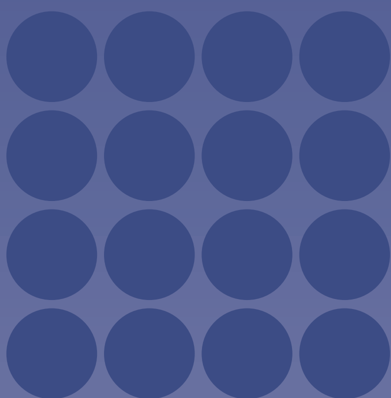
ANNUAL **REPORT 2011**

Zurich Insurance Group



About Zurich

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

With about 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.

Contents

Operating and financial review	2
Financial highlights	3
Risk review	15

Consolidated financial statements	52
Consolidated income statements	53
Consolidated balance sheets	56
Consolidated statements of cash flows	58
Consolidated statements of changes in equity	60
Report of the Zurich Insurance Group auditors	168

Financial statements – statutory accounts	170
Report of the statutory auditor	186
Key data of Zurich Insurance Company Ltd	188

Operating and financial review

Zurich Insurance Company Ltd (ZIC) and its subsidiaries (collectively the "Zurich Insurance Group") are an insurance services provider with a global network. The Zurich Insurance Group operates mainly in Europe, the United States, Latin America and Asia-Pacific through subsidiaries, branch offices and representations.

Over the last years, the Zurich Financial Services Group has streamlined its business portfolio to concentrate on insurance. In recognition of its strategic focus, the Board of directors proposes to replace the reference to financial services in the company name by indicating the insurance activity of the Group instead. Accordingly, the Board of Directors of Zurich Financial Services Group will propose at the Annual General Meeting on March 29, 2012, to change the company name to Zurich Insurance Group Ltd. In case the proposed name change is approved by the stakeholders, the Zurich Financial Services Group's Annual Report from the reporting year 2012 onwards will be renamed correspondingly. As a consequence of the proposed name change, this Annual Report for Zurich Insurance Company Ltd and its subsidiaries, currently named "Zurich Insurance Group", would be renamed to Zurich Insurance Company Ltd Annual Report.

The Operating and financial review is a management analysis of the performance of the Zurich Insurance Group business for 2011 compared with 2010 and explains key aspects of its financial position at the end of 2011.

In summary, the Zurich Insurance Group has maintained a good result despite the frequency and cost of significant catastrophe and weather-related events, while executing on its focus on improved profitability from underlying underwriting and maintaining its strong capital position.

Financial highlights	3
Performance overview	4
General Insurance	6
Global Life	7
Farmers	8
Other Operating Businesses	10
Non-Core Businesses	10
Investment performance	11
Balance Sheet highlights	13
Currency translation impact	14

The information contained within the Operating and financial review is unaudited and presents the consolidated results of the Zurich Insurance Group for the years ended December 31, 2011 and 2010, respectively. This document should be read in conjunction with the Zurich Insurance Group's audited Consolidated financial statements as of December 31, 2011. All amounts are shown in U.S. dollars, 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. In addition to the figures stated according to the International Financial Reporting Standards (IFRS), Zurich Insurance Group uses business operating profit (BOP) measures and other performance indicators to enhance the understanding of its results. These additional measures should be viewed as complementary to, and not a substitute for, the figures determined according to the IFRS. For a reconciliation of BOP to net income after income taxes see note 29 of the audited Consolidated financial statements. Certain comparative figures have been restated, 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	2011	2010	Change[1]
Business operating profit	**4,292**	4,992	(14%)
Net income attributable to shareholders	**3,888**	3,561	9%
General Insurance gross written premiums and policy fees	**34,572**	33,066	5%
Global Life gross written premiums, policy fees and insurance deposits	**27,711**	27,675	–
Farmers Management Services management fees and other related revenues	**2,767**	2,778	–
Farmers Re gross written premiums and policy fees	**3,529**	4,194	(16%)
General Insurance business operating profit	**2,265**	2,667	(15%)
General Insurance combined ratio	**98.8%**	97.9%	(0.9 pts)
Global Life business operating profit	**1,345**	1,467	(8%)
Farmers business operating profit	**1,438**	1,620	(11%)
Farmers Management Services gross management result	**1,333**	1,338	–
Farmers Management Services managed gross earned premium margin	**7.3%**	7.3%	–
Group investments average invested assets[2]	**195,498**	195,849	–
Group investments result, net	**9,470**	8,289	14%
Group investments return (as % of average invested assets)	**4.8%**	4.2%	0.6 pts
Total return on Group investments	**5.4%**	5.5%	(0.1 pts)
Shareholders' equity	**31,381**	31,862	(2%)

[1] Parentheses around numbers represent an adverse variance.
[2] Excluding average cash received as collateral for securities lending of USD 246 million in the year ended December 31, 2010.

Operating and financial review *continued*

Performance overview for the year ended December 31, 2011

Zurich Insurance Group delivered a good result for its shareholders despite the devastating earthquakes and exceptionally frequent weather-related events which made 2011 one of the costliest years for catastrophe-related insured losses. In challenging economic and market conditions, the Zurich Insurance Group maintained its focus on the execution of its underwriting strategies and further improved its customer orientation while protecting its strong capital position. Significant acquisitions have been closed in Latin America and Malaysia providing the Zurich Insurance Group with substantial further presence and size in target emerging markets where the outlook for economic growth remains more positive than in most mature markets.

The Zurich Insurance Group's focus on the mitigation of market risk is reflected in the investment gains on derivatives, held for economic hedging, which offset losses in business and investment results and cover balance sheet risks. Robust and sustained underwriting discipline during the continued economic difficulties has improved the underlying General Insurance result, partially compensating for above-average losses from catastrophes and weather-related events.

The Zurich Insurance Group's capital position remains strong with shareholders' equity of USD 31.4 billion slightly lower compared with December 31, 2010 after recording the total cost of USD 2.7 billion for dividends in 2011, despite volatile financial markets, currency fluctuations and financial market impacts on pension liabilities. In March 2011, Moody's Investors Service upgraded the insurance financial strength rating of Zurich Insurance Company Ltd to Aa3 from A1 and also upgraded its debt ratings.

As part of the establishment of the 51 percent participation in the Latin American insurance operations of Banco Santander SA (Santander), the Zurich Insurance Group has appointed senior management and completed acquisitions in Brazil, Mexico, Chile, Argentina and Uruguay in October and November 2011. In September 2011, the Zurich Insurance Group closed the acquisition of the composite insurer Malaysian Assurance Alliance Berhad (MAA).

Business operating profit decreased by USD 700 million to USD 4.3 billion, or by 14 percent in U.S. dollar terms.

- **General Insurance** business operating profit decreased by USD 402 million to USD 2.3 billion, or by 15 percent in U.S. dollar terms. The sustained focus on profitability has continued to produce strong improvements in the underlying loss ratio, but these improvements were more than offset by the exceptional frequency and overall severity of catastrophe and significant weather-related loss events. Major catastrophe losses of USD 1.0 billion in 2011, before the Zurich Insurance Group's aggregate catastrophe reinsurance recovery, arose from floods and earthquakes in the Asia-Pacific region and a hurricane in the U.S. By comparison, major catastrophe losses in 2010 were USD 275 million due to the earthquake in Chile and floods in Australia.

- **Global Life** business operating profit decreased by USD 122 million to USD 1.3 billion, or by 8 percent in U.S. dollar terms. Increased fee income from higher average assets under management plus higher margins from protection business were more than offset by higher costs related to investments in the global operations strategy, lower investment margin due to the continuing low interest rate environment, and accelerated deferred acquisition cost amortization resulting from lower European equity markets and interest rates compared with December 31, 2010.

- **Farmers** business operating profit decreased by USD 182 million to USD 1.4 billion, or by 11 percent. **Farmers Management Services** business operating profit increased by USD 20 million to USD 1.3 billion, mainly due to a reduction of 21st Century integration expenses in 2011. These savings were partially offset by lower revenues resulting from the planned run-off of the 21st Century agency auto book of business in 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 decreased by USD 202 million to USD 115 million, or by 64 percent, reflecting the net reduction in the All Lines Quota Share reinsurance agreement (All Lines agreement) with the Farmers Exchanges, as well as high weather-related losses in the U.S. in 2011, higher loss trends, and reduced investment income.

Other Operating Businesses reported a decrease of USD 72 million in its business operating loss to USD 846 million primarily reflecting movements in foreign currencies, the effect of the interest rate differential primarily between the euro and Swiss franc, as well as reduced interest expense on debt impacting holding and financing, offset by positive one-off items included in 2010, as well as the strengthening of the Swiss franc against the Group's reporting currency, the U.S. dollar, reflected in the headquarters result.

Non-Core Businesses reported a business operating profit of USD 89 million compared with USD 155 million in 2010. The profit in 2010 was mainly driven by USD 58 million reserve releases related to run-off businesses for U.S. life insurance and annuity portfolios.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, increased by USD 867 million to USD 68.6 billion, or by 1 percent in U.S. dollar terms, but decreased 3 percent on a local currency basis. Volumes developed as follows:

- **General Insurance** gross written premiums and policy fees increased by USD 1.5 billion to USD 34.6 billion, or by 5 percent in U.S. dollar terms, but remained flat on a local currency basis. The focus on achieving selective growth and increased profit margins through disciplined underwriting remained unchanged. Average rate increases of more than 3 percent were achieved despite the slow economic recovery in the U.S. and depressed economic activity in many European countries. Growth in local currency continued to be driven by International Markets, primarily in Latin America and Asia-Pacific, as well as by selected industry segments in North America and Europe. Customer retention levels improved slightly compared with 2010 mainly in International Markets and Europe.

- **Global Life** gross written premiums, policy fees and insurance deposits remained flat at USD 27.7 billion in U.S. dollar terms but decreased by 5 percent on a local currency basis. Volume increases were achieved in the strategic growth markets of Latin America and Asia-Pacific and Middle East with volumes in the UK also increasing driven by sales of single premium policies in Corporate Life & Pensions and Private Banking Client Solutions. This was offset by lower sales of single premium policies in Spain, Germany and Ireland as difficult market conditions persisted in those countries and by the impact of a divestment in Spain in 2010.

- **Farmers Management Services** management fees and other related revenues decreased by USD 11 million to USD 2.8 billion, which was in line with the decrease in gross earned premiums in the Farmers Exchanges. This decrease was primarily driven by the planned run-off of the 21st Century agency auto book of business, partially offset by the fee income from the continued increase of gross earned premiums in the Farmers Exchanges from 21st Century direct, and from business and specialty insurance. The 16 percent decrease to USD 3.5 billion in gross written premiums of **Farmers Re** reflects various participation changes to the All Lines agreement and consequent portfolio transfers.

Net income attributable to shareholders increased by USD 326 million to USD 3.9 billion, or by 9 percent. The overall result benefited from net capital gains including the gain realized on the sale of part of the Zurich Insurance Group's investment in New China Life Insurance Co., Ltd (NCI), and valuation gains on derivatives. In 2010, costs were recorded for the settlement of a class action suit in the U.S.

The **shareholders' effective tax rate** was 23.6 percent for the year ended December 31, 2011, compared with 20.2 percent for the year ended December 31, 2010, primarily as a result of fluctuations in the geographic profit mix, as well as favorable one-off tax settlements in 2010.

Operating and financial review *continued*

General Insurance

in USD millions, for the years ended December 31	2011	2010	Change
Gross written premiums and policy fees	34,572	33,066	5%
Net earned premiums and policy fees	29,076	27,844	4%
Insurance benefits and losses, net of reinsurance	(20,914)	(19,795)	(6%)
Net underwriting result	342	572	(40%)
Net investment income	2,799	2,867	(2%)
Net non-technical result (excl. items not included in BOP)	(885)	(796)	(11%)
Business operating profit	**2,265**	**2,667**	**(15%)**
Loss ratio	71.9%	71.1%	(0.8 pts)
Expense ratio	26.9%	26.9%	–
Combined ratio	**98.8%**	**97.9%**	**(0.9 pts)**

in USD millions, for the years ended December 31	Business operating profit		Combined ratio	
	2011	2010	2011	2010
Global Corporate	169	741	105.6%	95.8%
North America Commercial	1,048	1,118	95.9%	97.1%
Europe General Insurance	964	774	97.0%	97.7%
International Markets	(156)	84	107.8%	102.3%
GI Global Functions including Group Reinsurance	240	(49)	nm	nm
Total	**2,265**	**2,667**	**98.8%**	**97.9%**

Business operating profit decreased by USD 402 million to USD 2.3 billion, or by 15 percent in U.S. dollar terms and 19 percent on a local currency basis. The sustained focus on protecting margins has continued to improve the underlying result, but these improvements were more than offset by the exceptional frequency and overall severity of natural catastrophes and significant weather-related events throughout 2011. Investment income declined by 2 percent in U.S. dollar terms, mainly due to lower yields in Europe and the U.S.

Gross written premiums and policy fees increased by USD 1.5 billion to USD 34.6 billion, or by 5 percent in U.S. dollar terms, but remained flat on a local currency basis. As a result of the strategy to maintain margins, average rates increased by over 3 percent, an improvement of 1.0 percentage points compared with 2010. Despite these rate increases, customer retention levels improved slightly compared with 2010. Premiums increased on a local currency basis in International Markets with growth of 21 percent in Latin America and 5 percent in Asia-Pacific. Rates have improved in the North American market, with growth in targeted customer segments such as energy casualty and construction. European volumes continued to decline on a local currency basis, mainly due to underwriting actions implemented to improve profitability, particularly in the personal lines motor business, but also due to depressed levels of economic activity in certain European markets.

The **net underwriting result** decreased by USD 230 million to USD 342 million, reflected in the deterioration of 0.9 percentage points in the combined ratio to 98.8 percent. The underlying loss ratio continued to improve as the rate and re-underwriting strategies maintain the Zurich Insurance Group's profit margin. However, the impact of the exceptional frequency and severity of loss events arising from major catastrophes, amounting to USD 1.0 billion, including the floods in Australia, earthquakes in New Zealand, the earthquake and subsequent tsunami in Japan, Hurricane Irene in the U.S. and the floods in Thailand, as well as weather-related events across all regions during 2011, more than offset the positive developments in the underlying loss ratio. The total estimate for catastrophe and weather-related loss events triggered the Zurich Insurance Group's aggregate catastrophe reinsurance cover with recoveries of USD 175 million recorded in the Group Reinsurance result, forming an integral part of the overall General Insurance result. The expense ratio remained flat at 26.9 percent as an improvement in the other underwriting expense ratio was offset by a slightly increased commission ratio mainly triggered by a change in business mix. Absolute net technical expenses remained flat on a local currency basis as continued focus on expenses maintained the balance between investments in emerging markets and expense management actions.

Global Life

in USD millions, for the years ended December 31	2011	2010	Change
Insurance deposits	16,127	15,382	5%
Gross written premiums and policy fees	11,583	12,292	(6%)
Net investment income on Group investments	4,146	3,892	7%
Insurance benefits and losses, net of reinsurance	(9,503)	(10,140)	6%
Underwriting and policy acquisition costs, net of reinsurance	(2,029)	(1,503)	(35%)
Administrative and other operating expenses	(2,739)	(2,217)	(24%)
Business operating profit	**1,345**	**1,467**	**(8%)**
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts	184,599	187,196	(1%)
Assets under management[1]	219,755	222,333	(1%)
Net policyholder flows[2]	2,769	5,520	(50%)

[1] Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties, on which the Zurich Insurance Group earns fees.
[2] Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.

Business operating profit decreased by USD 122 million to USD 1.3 billion, or 8 percent in U.S. dollar terms. Higher average stock market levels and assets under management during the first half of the year increased fee income compared with 2010. Margins from protection business also increased as a result of higher volumes and disciplined underwriting although these improvements were more than offset by market and expense impacts. Lower European equity market levels and interest rates at December 31, 2011, reduced investment margin and accelerated deferred acquisition cost amortization while expenses increased mainly due to higher investments in the global operations strategy.

Insurance deposits increased by USD 745 million to USD 16.1 billion, or by 5 percent in U.S. dollar terms and by 1 percent on a local currency basis driven by single premium volumes with increases in Corporate Life & Pensions in the UK and Asia-Pacific and Middle East as well as in Private Banking Client Solutions in the UK being partially offset by reductions in Spain, Ireland and Germany.

Gross written premiums and policy fees decreased by USD 0.7 billion to USD 11.6 billion, or by 6 percent in U.S. dollar terms and 12 percent on a local currency basis. This decrease was driven by lower single premium volumes in Spain and Germany as well as by the divestment of the Zurich Insurance Group's jointly owned insurance operations with Caixa Sabadell in Spain in September 2010.

Net reserves decreased by USD 2.6 billion or by 1 percent in U.S. dollar terms and remained flat on a local currency basis compared with December 31, 2010. **Assets under management** during 2011 were at a higher average level compared with 2010. However, as of December 31, 2011, assets under management at USD 219.7 billion had decreased by USD 2.6 billion, or by 1 percent in U.S. dollar terms. **Net policyholder flows** remained positive at USD 2.8 billion despite the lower deposit and premium volumes in Germany, Ireland and Spain.

Operating and financial review *continued*

Farmers

Farmers business operating profit decreased by USD 182 million to USD 1.4 billion, or by 11 percent. This reduction reflects the reduced participation in the All Lines agreement in Farmers Re and an increase in losses compared with 2010, offset in part by slightly higher business operating profit in Farmers Management Services due to reduced integration expenses between years.

Farmers Management Services

in USD millions, for the years ended December 31	2011	2010	Change
Management fees and other related revenues	2,767	2,778	–
Management and other related expenses	(1,434)	(1,440)	–
Gross management result	1,333	1,338	–
Other net income	(10)	(35)	71%
Business operating profit	**1,324**	**1,304**	**2%**
Managed gross earned premium margin	7.3%	7.3%	nm

Business operating profit of USD 1.3 billion increased by USD 20 million mainly driven by a reduction in operating expenses and 21st Century integration expenses in 2011 offset in part by lower revenue due to the planned run-off of the 21st Century agency auto book of business.

Management fees and other related revenues of USD 2.8 billion decreased by USD 11 million driven by the effect of the planned run-off of the 21st Century agency auto book of business. This was partially offset by the fee income from the continued increase of gross earned premiums in the Farmers Exchanges from 21st Century direct, and from business and specialty insurance. Farmers Exchanges are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Zurich Financial Services Group. **Management and other related expenses** of USD 1.4 billion reduced slightly compared with the level of expenses in 2010.

Consequently, while the **gross management result** decreased by USD 5 million to USD 1.3 billion, the **managed gross earned premium margin** remained constant.

Farmers Re

in USD millions, for the years ended December 31	2011	2010	Change
Gross written premiums and policy fees	3,529	4,194	(16%)
Net underwriting result	(23)	134	nm
Business operating profit	**115**	**317**	**(64%)**
Loss ratio	70.5%	66.5%	(4.0 pts)
Expense ratio	30.2%	31.1%	0.8 pts
Combined ratio	**100.8%**	**97.6%**	**(3.2 pts)**

Business operating profit of USD 115 million decreased by USD 202 million, or by 64 percent, primarily due to an increase in losses in 2011 as well as the effect of the reduction in the All Lines agreement on both investment income and the underwriting result.

Gross written premiums and policy fees decreased by USD 665 million, or by 16 percent to USD 3.5 billion as a result of the changes in the All Lines agreement. These changes were a reduction from 35 percent to 25 percent effective June 30, 2010, a further decrease to 12 percent effective December 31, 2010, and an increase to 20 percent effective December 31, 2011. The **net underwriting result** deteriorated by USD 157 million to a loss of USD 23 million primarily due to higher losses assumed from the Farmers Exchanges during 2011, reduced partially by the lower participation in the All Lines agreement.

The **loss ratio** increased by 4.0 percentage points compared with 2010, mainly driven by the impact of large weather-related losses, including a series of tornadoes which hit the Midwest and Southeast regions of the U.S. in April and May along with higher loss trends resulting from higher auto property and physical damage trends both industry-wide and at Farmers. The **expense ratio** decreased by 0.8 percentage points mainly driven by lower experience commissions.

Farmers Exchanges

Farmers Exchanges

in USD millions, for the years ended December 31	2011	2010	Change
Gross written premiums	18,297	18,131	1%
Gross earned premiums	18,149	18,311	(1%)

Gross written 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 166 million to USD 18.3 billion. This increase was driven by premium growth in nearly all active lines of business, reflecting the acceleration of the underlying growth momentum during the later part of 2011, partially offset by the planned run-off of the 21st Century agency auto book of business. Excluding this effect, gross written premiums grew by 2 percent compared with 2010.

Gross earned premiums in the Farmers Exchanges decreased by USD 162 million to USD 18.1 billion, or by 1 percent, driven mainly by the continuing effect of the planned run-off of the 21st Century agency auto book of business on earned premiums in 2011. This was partially offset by increased gross earned premiums from 21st Century direct, and from business and specialty insurance as gross written premiums growth in previous periods has been earned.

Operating and financial review *continued*

Other Operating Businesses

in USD millions, for the years ended December 31	**2011**	2010	Change
Business operating profit:			
Holding and financing	(599)	(779)	23%
Headquarters	(246)	(138)	(78%)
Total business operating profit	**(846)**	**(918)**	**8%**

Holding and financing reduced its business operating loss by USD 180 million to USD 599 million, or by 23 percent mainly reflecting movements in foreign currencies, the effect of the interest rate differential primarily between the euro and Swiss franc and reduced interest expense on debt. **Headquarters** business operating loss increased by USD 108 million to USD 246 million, or by 78 percent. This was primarily driven by the effects of the strong Swiss franc in 2011 combined with the one-off reduction in pension expenses in 2010 following the outsourcing of an IT data center.

Non-Core Businesses

in USD millions, for the three months ended March 31	**2011**	2010	Change
Business operating profit:			
Centrally Managed Businesses:	86	98	(12%)
Centre	60	39	55%
Other Centrally Managed Businesses	26	59	(57%)
Other run-off	3	58	(94%)
Total business operating profit	**89**	**155**	**(43%)**

Centrally managed businesses, which comprise run-off portfolios that are managed with the intention to pro-actively reduce capital risk while maximizing profit opportunities, reported a business operating profit of USD 86 million, compared with USD 98 million in 2010. **Centre's** business operating profit increased by USD 21 million, mainly driven by reserve releases in its life business, slightly offset by a less positive impact from movements in financial markets on an insurance portfolio where both assets and liabilities are carried at fair value. **Other centrally managed businesses** reported a profit of USD 26 million driven by reserve releases in a part of the non-life run-off business, partially offset by costs and accounting-related charges in connection with the run-off of Zurich Specialties London Limited. In 2010, Other centrally managed businesses reported a profit of USD 59 million, mainly driven by positive reserve developments.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 3 million. The profit of USD 58 million in 2010 was primarily driven by reserve releases.

Investment performance

Performance of Group investments

in USD millions, for the years ended December 31	2011	2010	Change
Net investment income	7,142	7,021	2%
Net capital gains/(losses) on investments and impairments	2,328	1,268	84%
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	1,661	650	nm
Net investment result	9,470	8,289	14%
Net investment return on Group investments	**4.8%**	**4.2%**	**0.6 pts**
Movements in net unrealized gains/(losses) on investments included in total equity	1,050	2,524	(58%)
Total investment result, net of investment expenses[1]	**10,520**	**10,813**	**(3%)**
Average group investments	195,498	195,849[2]	–
Total return on Group investments	**5.4%**	**5.5%**	**(0.1 pts)**

[1] After deducting investment expenses of USD 253 million and USD 226 million for the for the years ended December 31, 2011 and 2010, respectively.
[2] Excluding average cash received as collateral for securities lending of USD 246 million in the year ended December 31, 2010.

Total **net investment income** increased by 2 percent in U.S. dollar terms to USD 7.1 billion, but decreased by 3 percent on a local currency basis, driven mainly by lower reinvestment yields on debt securities.

Total **net capital gains on investments and impairments** were USD 2.3 billion, compared with gains of USD 1.3 billion in 2010. This includes USD 1.5 billion of positive asset revaluations and USD 1.1 billion of net capital gains realized from active management, partially offset by impairments of USD 330 million.

Positive asset revaluations on securities booked at fair value through profit and loss were driven by gains on other investments of USD 928 million, largely from derivatives, gains on debt securities at fair value of USD 541 million, and gains on equity securities at fair value of USD 25 million. The gains on derivatives arose, as financial markets have fallen, on instruments held as economic hedges, where an underlying business or investment loss has largely been offset or where balance sheet risk has been mitigated.

The net capital gains from active management of equity securities were USD 566 million including USD 441 million from the sale of shares in NCI, that took place in June 2011. Net capital gains from active realizations of debt securities were USD 436 million, and net capital gains from the sale of other investments were USD 155 million.

Impairments of USD 270 million were attributable to equity securities, USD 55 million to debt securities and USD 5 million to other investments.

Net investment return on Zurich Insurance Group investments increased to 4.8 percent compared with 4.2 percent in 2010 due to higher investment income and net capital gains, while average Zurich Insurance Group investments remained largely unchanged.

Net unrealized gains/losses on investments included in total equity have increased by USD 1.1 billion since December 31, 2010, mainly driven by higher net unrealized gains on debt securities of USD 1.7 billion as interest rates have continued to fall. Though yields on government bonds fell in both periods, credit spreads widened significantly compared with 2010 and partially offset the positive impact of falling yields. Net unrealized gains on equity securities decreased by USD 848 million since December 31, 2010. This reduction was driven by the realization of gains on the sale of shares in NCI and by deteriorating equity markets mainly in the last six months of the year. Net unrealized gains on other investments increased by USD 219 million since December 31, 2010.

Total return, net of investment expenses, on average Zurich Insurance Group investments was 5.4 percent, at almost the same level as in 2010. Debt securities, which are invested to match the Zurich Insurance Group's insurance liability profiles, returned a positive 5.6 percent, equity securities returned a negative 1.7 percent and other investments, mainly real estate and mortgages, returned a positive 9.5 percent.

Operating and financial review *continued*

Performance of unit-linked investments

in USD millions, for the years ended December 31	2011	2010	Change
Net investment income	1,757	1,561	13%
Net capital (losses)/gains on investments and impairments	(5,302)	8,533	nm
Net investment result, net of investment expenses[1]	(3,544)	10,093	nm
Average investments	106,275	103,557	3%
Total return on unit-linked investments	**(3.3%)**	**9.7%**	**(13.1 pts)**

[1] After deducting investment expenses of USD 610 million and USD 630 million for the for the years ended December 31, 2011 and 2010, respectively.

Total return on unit-linked investments was a negative 3.3 percent compared with a positive 9.7 percent in 2010. The movement in the total return was due to net capital losses in 2011 compared with gains during 2010, mostly driven by lower equity markets. Net investment income increased by USD 196 million or by 13 percent in U.S. dollar terms and 7 percent on a local currency basis.

Balance Sheet highlights

in USD millions, as of December 31	2011	2010	Change
Group investments	194,151	196,846	(1%)
Investments for unit-linked products	104,603	107,947	(3%)
Total investments	298,754	304,794	(2%)
Net reserves for losses and loss adjustment expenses	55,124	56,014	(2%)
Net reserves for unearned premiums	14,235	13,895	2%
Net other reserves for insurance contracts, including unit-linked insurance products	151,966	153,861	(1%)
Net reserves for insurance contracts[1]	221,325	223,770	(1%)
Liabilities for investment contracts (primarily unit-linked)	50,661	50,667	–
Total operational debt	1,086	1,609	(33%)
Total financial debt	11,677	13,069	(11%)
Total equity	34,015	33,432	2%
Total debt and equity	46,778	48,110	(3%)

[1] Gross of allowance for uncollectible amounts of USD 125 million and USD 132 million as of December 31, 2011, and 2010, respectively.

Zurich Insurance Group investments decreased by USD 2.7 billion or 1 percent in U.S. dollar terms since December 31, 2010, mainly due to currency translation effects. On a local currency basis, total Zurich Insurance Group investments remained at the same level as in 2010.
Investments for unit-linked products decreased by USD 3.3 billion to USD 104.6 billion since December 31, 2010, or by 3 percent in U.S. dollar terms and 2 percent on a local currency basis as a result of financial markets movements.

Net reserves for insurance contracts decreased by 2.4 billion or 1 percent in U.S. dollar terms since December 31, 2010.
Net reserves for losses and loss adjustment expenses decreased by USD 0.9 billion since December 31, 2010, to USD 55.1 billion. This decrease was mostly driven by a USD 1.3 billion favorable development in the reserves as of December 31, 2010 and the implementation of a reinsurance contract related to the run-off insurance business of Zurich Specialties London Limited in anticipation of a portfolio transfer to be executed when regulatory approval is received.
Net other reserves for insurance contracts, including unit-linked insurance products decreased by USD 2.6 billion or by 1 percent in U.S. dollar terms, and remained flat on a local currency basis compared with December 31, 2010. This was mainly a consequence of the weakening of financial markets which decreased unit-linked fund values offset by an increase related to the acquisition of MAA in Malaysia.

Total debt and equity decreased by 6 percent.
Operational debt as revised for the exclusion of repurchase agreement obligations, decreased by USD 522 million to USD 1.1 billion since December 31, 2010, or by 32 percent in U.S. dollar terms due to the repayment of USD 521 million in collateralized loans.
Financial debt decreased by USD 1.4 billion to USD 11.7 billion, or by 11 percent in U.S. dollar terms and 10 percent on a local currency basis. The decrease was mainly due to the final repayment in April 2011 by Zurich Insurance Company Ltd of CHF 1.7 billion on the outstanding CHF 4.0 billion subordinated loan from Zurich Financial Services Ltd and the reduction of USD 132 million in its call account positions with Zurich Financial Services Ltd. This decrease was partially offset by a new subordinated loan note of CHF 500 million issued under the Euro Medium Term Note Programme (EMTN Programme) in March 2011 which refinanced the early redemption of hybrid debt classified as preferred securities in shareholders' equity as of December 31, 2010. Other changes in the Zurich Insurance Group's financing consisted of the repayment in July 2011 of commercial paper of USD 400 million refinanced by the issuance of USD 400 million under the new Euro Commercial Paper Notes in October and December 2011, the repayment on maturity of CHF 1.0 billion and CHF 300 million senior bonds, refinanced by the issuance of three senior notes totaling CHF 1.3 billion under the EMTN Programme. Details of debt issuances are set out in note 21 of the audited Consolidated financial statements.
Total equity increased by USD 583 million to USD 34.0 billion.

Operating and financial review *continued*

Currency translation impact

The Zurich Insurance Group operates worldwide in multiple currencies and seeks to match foreign currency exposures on an economic basis. Details of the principal exchange rates used by the Zurich Insurance Group are set out in note 1 of the audited Consolidated financial statements.

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, 2011	in USD millions	in %
Gross written premiums and policy fees	2,074	4%
Insurance benefits and losses, gross of reinsurance	(1,807)	(5%)
Net income attributable to shareholders	66	2%
Business operating profit	52	1%

The income statements are translated at average exchange rates. Throughout 2011, the U.S. dollar has on average been weaker against the euro and British pound, and significantly weaker against the Swiss franc, compared with 2010. The net result has been an increase, in U.S. dollar terms, in gross written premiums and policy fees which was partially offset by an increase in U.S. dollar terms in insurance benefits and losses.

Selected Group balance sheet line items

variance over December 31, 2010, as of December 31, 2011	in USD millions	in %
Total investments	(4,382)	(2%)
Reserves for insurance contracts, gross	(3,558)	(1%)
Cumulative translation adjustment in shareholders' equity	(742)	(4%)

The balance sheets are translated at end-of-period rates. The U.S. dollar has strengthened against the euro, but remained relatively stable against the British pound and Swiss franc as of December 31, 2011, compared with December 31, 2010, resulting in a decrease, in U.S. dollar terms, in most balance sheet items.

Risk review

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 in the "Risk Management" section 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.

Risk management

Mission and objectives of risk management	16
Risk management framework	16
External perspectives	17
Risk governance and risk management organization	18

Analysis by risk type

Risk type description	21
Strategic risk	21
Insurance risk	22
Market risk	29
Credit risk	37
Liquidity risk	44
Operational risk	46
Risks to the Group's reputation	47

Capital management and analysis of capital adequacy

Capital management	48
Analysis of capital adequacy	49

Risk review *continued*

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 in the "Risk Management" section 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 an 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 the Zurich Financial Services Group's risk tolerance, 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 2011, the Zurich Risk Policy was updated and strengthened for various areas, including enterprise risk management, credit risk and asset/liability management. Related procedures and risk controls were strengthened or clarified for these areas. In 2011, Zurich Financial Services Group focused on strengthening processes to assess adherence to requirements in the Zurich Risk Policy.

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 assessment and 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 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's 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.

Regulatory regimes, such as the Swiss Solvency Test in Switzerland 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 Zurich Financial Services Group's overall Enterprise Risk Management as "strong." Reinsurance risk, credit risk and market risk controls remain "excellent." Asset and liability management, reserving risk, catastrophe risk and operational risk controls, as well as strategic and emerging risk management, are seen as "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. For discussion of these councils, see the "Corporate Governance Report (unaudited)." In addition, the Investment Management Advisory Council provides feedback to Investment Management on achieving superior risk-adjusted returns versus liabilities for the Zurich Financial Services Group's invested assets.

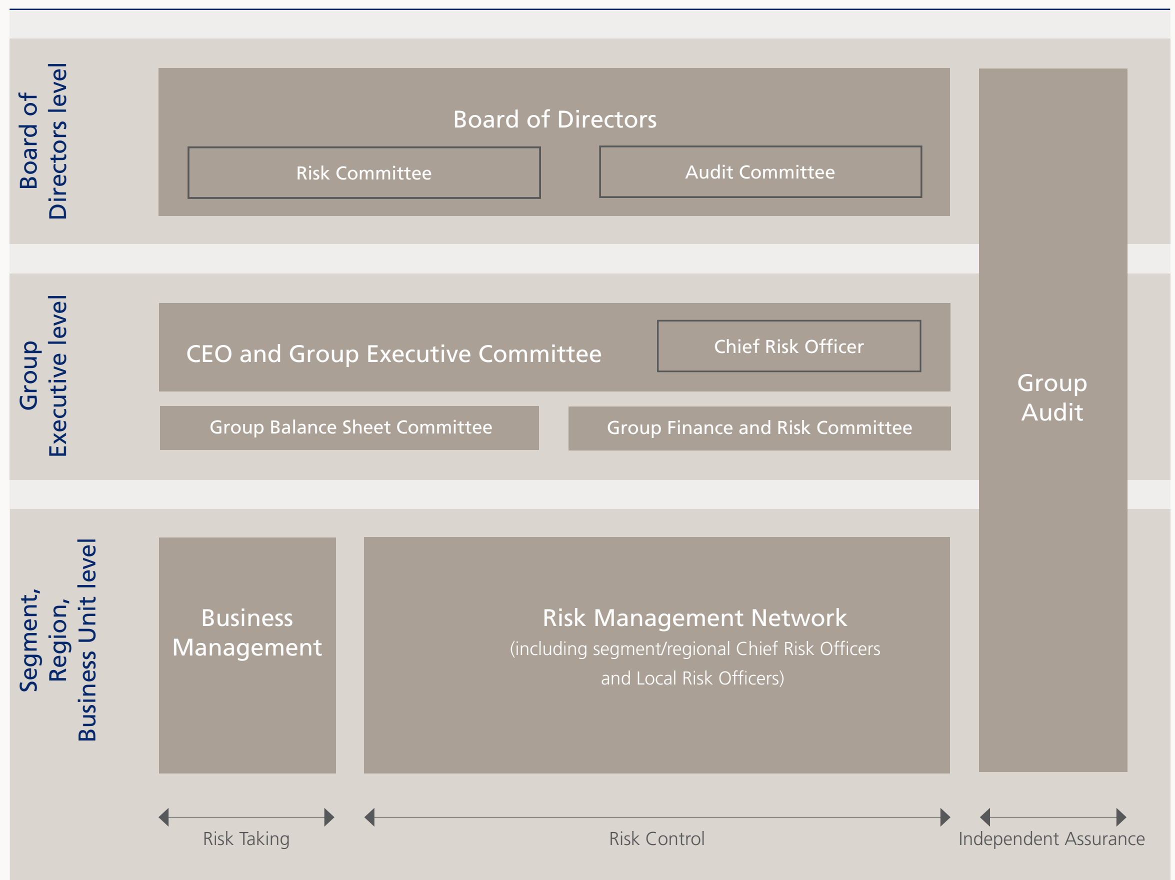
Risk review *continued*

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. For example, in 2011, the 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 2011, the Zurich Financial Services Group's Chief Risk Officer served as chair of the CRO Forum. In addition, the Zurich Financial Services Group's Chief Financial Officer served until October 2011 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 Risk Response Network.

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.

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 seven times in 2011 (once jointly with the Remuneration Committee).

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's Group Balance Sheet Committee and the Zurich Financial Services Group's Group Finance and Risk Committee regularly review and make recommendations on the Zurich Financial Services Group's risk profile and significant risk-related issues.

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

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

- Zurich Financial Services Group's 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's 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 Chief Financial Officer, while the Chief Risk Officer acts as deputy.

Risk review *continued*

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 Chief Investment Officer.
- Global Underwriting Committee (GUC) – acts as a focal point for underwriting policy and related risk controls for General Insurance and is chaired by the Global Chief Underwriting Officer for 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 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 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 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 and control. 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 and control department includes operational risk management, internal control framework, risk reporting, risk governance, and risk operations. 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 management teams in their respective businesses and therefore are embedded in the business. The LROs also report to the segment or regional CROs, who in turn report 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 audit and oversight committees at the major business and regional levels. The committees are responsible for providing oversight of the risk management and control functions. This includes monitoring adherence to policies and periodic risk reporting. In 2011, the Zurich Financial Services Group revised its subsidiary governance to make local risk and control committees optional. However, senior executives at the local level are required to meet at least quarterly with the local heads of governance functions to agree on the significant risks, control and compliance exposures and to decide on necessary actions.

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 such as outsourcing, catastrophes, legislation, or external fraud
- 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.

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. Inflation is monitored on a country basis; the monitoring process relies on both the Zurich Financial Services Group's economic view on inflation and specific claims activity, and feeds into actuarial models and the Zurich Financial Services Group's underwriting processes such as technical price reviews.

In most instances these actuarial 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 Zurich Financial Services Group, with cross-functional expertise to identify, assess and recommend actions for such risks on a Zurich Financial Services Group level. Emerging risks are those risks phenomena whose full nature and effects are not yet known with the degree of certainty in other insurance exposures. 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, solar storms and cyber threats. 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 global perspective. the Zurich Financial Services Group is also a standing member of and actively contributes to 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 United States and Caribbean tropical cyclone, Europe windstorm and California earthquake, 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 5.3 billion and USD 5.1 billion for the years ended December 31, 2011 and 2010, 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.

General Insurance – Direct written premiums and policy fees by line of business and by region – current period

Table 1.a

in USD millions, for the year ended December 31, 2011	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,371	2,965	3,059	1,588	2,255	11,239
Europe	6,322	4,768	2,493	2,229	450	16,261
Other regions[1]	2,043	1,661	446	581	148	4,880
Total	**9,736**	**9,394**	**5,998**	**4,399**	**2,853**	**32,379**

[1] Including intercompany eliminations

General Insurance – Direct written premiums and policy fees by line of business and by region – prior period

Table 1.b

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	6,081	4,752	2,277	2,067	442	15,619
Other regions[1]	1,566	1,472	352	672	110	4,173
Total	**9,046**	**8,870**	**6,092**	**4,228**	**2,670**	**30,906**

[1] Including intercompany eliminations

Risk review *continued*

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

Table 2.a

Insurance risk sensitivity for the General Insurance business

in USD millions, as of December 31, 2011	Global Corporate	North America Commercial	Europe	International Markets
+1% in net loss ratio				
Net income before tax	(54)	(76)	(126)	(34)
Net assets	(41)	(58)	(97)	(26)

Table 2.b

Insurance risk sensitivity for the General Insurance business

in USD millions, as of December 31, 2010	Global Corporate	North America Commercial	Europe	International Markets
+1% in net loss ratio				
Net income before tax	(49)	(76)	(124)	(29)
Net assets	(39)	(61)	(99)	(23)

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 models exposures centrally in a center of excellence for consistency in approach and to form a global perspective on accumulations. The center of excellence for catastrophe modeling works with the local businesses to help improve the overall quality of data, by analyzing and comparing data quality levels, providing priorities for data quality improvements and supporting implementation with advice and external data, where required. The Zurich Financial Services Group models potential losses from property policies located in hazard-prone areas with material exposure and adjusts for non-property related losses. These assessments principally address climate-induced perils such as windstorms, river floods, tornadoes and hail, and geologically induced perils such as earthquakes. The Zurich Financial Services Group constantly seeks to improve its modeling, fill in gaps in models with additional assessments and 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 worker injury and property 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 2011, 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.

Although the Zurich Financial Services Group's analysis has shown its exposures outside North America are lower, in large part due to government-provided pools, in 2011 the Zurich Financial Services Group extended its approach to improve its view of the risk for countries with the next greatest potential net exposure. The Zurich Financial Services Group periodically monitors accumulation limits for these and other 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 the Global Life 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 and 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 built into 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.

Risk review *continued*

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, where permitted, 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.

Certain life insurance contracts 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 policies with such features. Since 2011, the Zurich Financial Services Group has 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 Global 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 geographical area, economic sector, or individual issuers, or due to a concentration of business written within a geographical area, of a policy type, or of underlying risks covered.

The Zurich Financial Services Group is exposed to two main types of concentration risk in its Global 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. 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 geographical 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 table on the next page 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.

Sensitivities analysis for life insurance risk

The Zurich Insurance Group reports sensitivities for the Global Life 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 Financial Report 2011 (section 9. Sensitivities) for more information on the sensitivities for the Global Life business to economic and operating risk factors.

Reserves, net of reinsurance, by region

Table 3

in USD millions, as of December 31	Unit-linked insurance contracts		Other life insurance liabilities		Total reserves	
	2011	2010	**2011**	2010	**2011**	2010
Global Life						
North America	525	462	5,214	5,107	5,739	5,570
Latin America	475	505	2,037	2,042	2,512	2,547
Europe	44,218	46,721	75,763	77,507	119,981	124,227
of which						
United Kingdom	27,064	29,105	5,056	4,792	32,120	33,896
Germany	9,166	9,800	40,004	41,347	49,170	51,147
Switzerland	639	650	18,672	18,688	19,311	19,339
Ireland	880	278	1,519	1,318	2,399	1,596
Spain	5,416	5,352	6,007	6,783	11,423	12,134
Rest of Europe	1,053	1,536	4,505	4,579	5,559	6,115
Emerging Markets in Asia	2,420	2,279	3,005	1,378	5,424	3,657
Rest of the world	9	11	273	267	281	279
Eliminations	–	–	2	4	2	4
Subtotal	**47,647**	49,978	**86,292**	86,306	**133,939**	136,284
Other segments[1]	11,507	11,807	6,520	5,770	18,027	17,577
Total	**59,154**	61,786	**92,812**	92,075	**151,966**	153,861

[1] See note 29 of the Consolidated financial statements for additional information on the Zurich Financial Services Group's segments.

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 its segments, General Insurance and Global Life, and bundles programs where appropriate to benefit from diversification and economies of scale. These efforts for General Insurance have led to a decreasing expenditure for treaty reinsurance while growth in the General Insurance Global Corporate segment has increased premium cessions to captives and co-reinsurers, resulting in an overall stable cession rate.

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 has managed its central reinsurance purchasing according to these principles for General Insurance since 2003 and for Global Life since 2008. The Zurich Financial Services Group is therefore able to manage its risks to retain a significant and stable portion of premium.

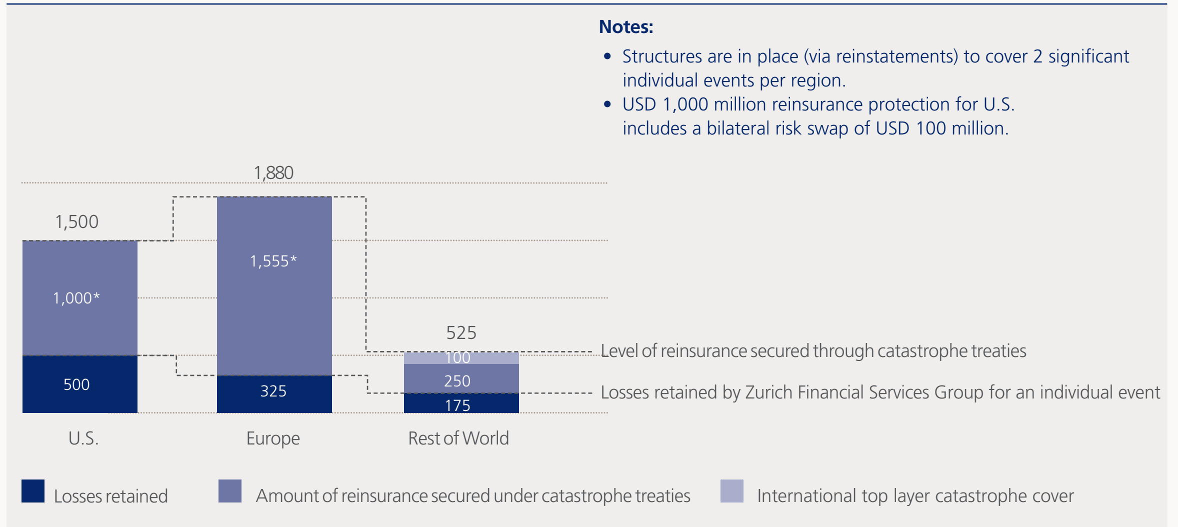
The Zurich Financial Services Group continues to use traditional reinsurance markets and other alternatives, such as catastrophe bonds, to protect against extreme single events and increased frequency of events. The Zurich Financial Services Group is able to use its global reach in particular for catastrophe 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, 2011 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 catastrophe bonds in place. These covers are reviewed continuously and are subject to change going forward.

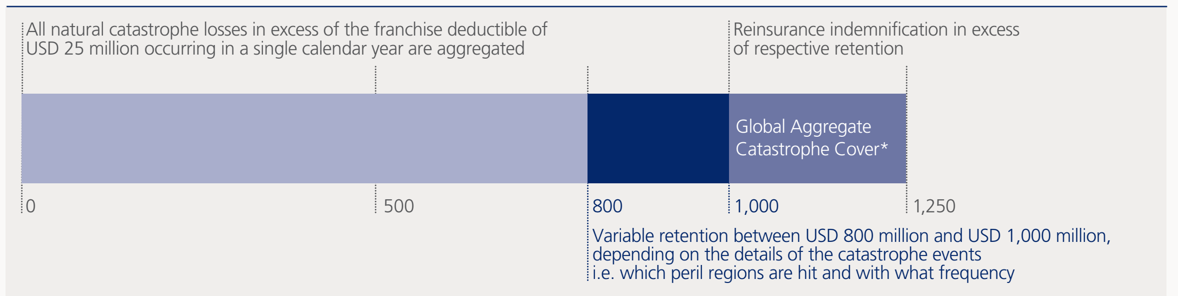
Events in 2011 illustrate how reinsurance protects the Zurich Financial Services Group's balance sheet. The year will be remembered for its numerous earthquakes and other weather-related catastrophe events. All these events together led to record insured losses for the industry, higher than in 2005, the year of Hurricane Katrina. The losses sustained by the Zurich Financial Services Group will be mitigated by more than USD 720 million in recoveries via the Zurich Financial Services Group's reinsurance programs for natural catastrophes.

Risk review *continued*

Reinsurance for natural catastrophes – unusually severe natural catastrophe events
(in USD millions, as of December 31, 2011)



Reinsurance for natural catastrophes – unusually frequent natural catastrophe events
(in USD millions, as of December 31, 2011)



*On a co-participation basis, as summarized below:

U.S. Catastrophe Treaty (USD 1,000 million)	Co-participation varies by layer and is approximately 36% overall.
European Catastrophe Treaty (USD 1,555 million)	Co-participation varies by layer and is approximately 39% overall.
Global Aggregate Catastrophe Cover (USD 250 million)	Cover operates on an annual aggregate basis. Co-participation is 30%.

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's 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 Zurich Financial Services 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.

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 the 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

Risk review *continued*

Group's liquidity, reported income, surplus and regulatory capital position. The exposure to equity risk includes 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.

In 2011, the Zurich Financial Services Group reduced its stake in New China Life Insurance Company Ltd.

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 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 2011, specific actions were implemented to manage the Zurich Financial Services Group's market risk exposure, in light of the financial market turbulence in Europe. In particular in Global Life, exposure to interest rate risks of the German business was reviewed in detail, while the Zurich Financial Services Group continued to buy receiver swaptions to reduce the exposure to a decline in interest rates. These actions led to a decrease in the net duration and convexity compared to the end of 2010, which partially offset the drop in interest rates. Exposure to European sovereign risk was mitigated through a reduction in investment of new inflows into Greece, Ireland, Italy, Portugal and Spain government bonds, and the rebalancing of part of the Italian bond portfolio into German bonds. In addition, the Zurich Financial Services Group reduced its exposure to corporate credit and implemented a macro hedge to protect the balance sheet against a deterioration in European equities. This macro hedge was terminated at the end of 2011. Finally, in 2011, the Zurich Financial Services Group revised its internal risk limits in order to provide more comprehensive measurement and control of interest rate risk, taking into account convexity and cross-currency curve risk.

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 the 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 the 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, the 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 insurance characteristics, the analysis is based on market-consistent embedded value market risk sensitivities. See the "Embedded Value Report" in the Zurich Financial Services Group Financial Report 2011 (section 12. Embedded Value Methodology, (r) Sensitivities and section 13. Embedded Value Assumptions, (a) Economic Assumptions) 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 the 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, these are disclosed separately as credit spread risk sensitivities.
- The equity market scenarios assume a concurrent movement of all stock markets.
- The sensitivities 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 based on economic net assets, and not on IFRS equity or on IFRS profit and loss.
- The sensitivity analysis is calculated after tax; the Zurich Insurance Group effective tax rate is assumed to be 23.6 percent for 2011. For 2010, it is calculated at 20.2 percent. For the Non-Core Businesses with life insurance characteristics, specific tax rates have been applied.

Basis of presentation – Global Life

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

Limitations of the analysis:

- The sensitivities show the effects of a change in certain risk factors, while other assumptions remain unchanged, except where they are directly affected by the revised conditions.
- The market risk scenarios assume a concurrent movement of all stock markets and an unrelated parallel shift of all interest rates in different currencies.
- The assumptions on policyholder behavior, such as lapsing of policies, included in the sensitivity analysis for Global Life may be different from actual behavior. Therefore, the actual impact may deviate from the analysis.

Risk review *continued*

Analysis of economic sensitivities for interest rate risk

The tables below show the estimated impacts of a 100 basis 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, 2011 and 2010, respectively.

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

Table 4.a

in USD millions, as of December 31, 2011	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(1,082)	(469)	(302)	(318)	(160)	**(2,331)**
Liabilities	(1,141)	(361)	(348)	(352)	(100)	**(2,301)**
Net impact before tax	59	(108)	45	34	(61)	**(30)**
Tax impact	(14)	25	(11)	(8)	14	**7**
Net impact after tax	45	(82)	35	26	(46)	**(23)**
100 basis points decrease in the interest rate yield curves						
Group investments	877	449	266	195	149	**1,936**
Liabilities	999	337	339	297	99	**2,070**
Net impact before tax	(122)	112	(73)	(102)	51	**(134)**
Tax impact	29	(26)	17	24	(12)	**32**
Net impact after tax	(93)	86	(56)	(78)	39	**(102)**

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

Table 4.b

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)	(15)	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)	28	(16)	**(70)**
Net impact after tax	168	136	17	(109)	64	**276**

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

Table 5.a

in USD millions, as of December 31, 2011	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Total impact on Embedded Value	(79)	520	(17)	255	(100)	**578**
100 basis points decrease in the interest rate yield curves						
Total impact on Embedded Value	(9)	(1,095)	(19)	(309)	83	**(1,349)**

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

Table 5.b

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 rest of the businesses – current period

Table 6.a

in USD millions, as of December 31, 2011	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(731)	(113)	(15)	(5)	(1)	**(865)**
Liabilities	(588)	(5)	(9)	(3)	–	**(605)**
Net impact before tax	(143)	(107)	(6)	(2)	(1)	**(260)**
Tax impact	34	25	2	1	–	**61**
Net impact after tax	(110)	(82)	(5)	(2)	(1)	**(199)**
100 basis points decrease in the interest rate yield curves						
Group investments	896	105	17	6	1	**1,024**
Liabilities	759	6	8	2	–	**774**
Net impact before tax	136	99	9	5	1	**250**
Tax impact	(31)	(23)	(2)	(1)	–	**(58)**
Net impact after tax	106	76	7	4	1	**192**

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, 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	31	(2)	3	(5)	–	**26**
Net impact after tax	(199)	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	(3)	2	–	**(45)**
Net impact after tax	141	(7)	20	(7)	1	**148**

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, 2011 and 2010, respectively.

Table 7

Economic equity price sensitivities for the General Insurance business

in USD millions, as of December 31	2011	2010
10% decline in stock markets		
Group investments	(473)	(435)
Liabilities	–	–
Net impact before tax	(473)	(435)
Tax impact	112	88
Net impact after tax	(362)	(347)

Table 8

Economic equity price sensitivities for the Global Life business

in USD millions, as of December 31	2011	2010
10% decline in stock markets		
Total impact on Embedded Value	(298)	(261)

Table 9

Economic equity price sensitivities for the rest of the businesses

in USD millions, as of December 31	2011	2010
10% decline in stock markets		
Group investments	(117)	(314)
Liabilities	57	75
Net impact before tax	(174)	(389)
Tax impact	42	68
Net impact after tax	(133)	(321)

Analysis of economic sensitivities for credit spread risk

The following table shows the estimated impacts from a 100 basis points increase in corporate credit spreads, as of December 31, 2011 and 2010, respectively. Credit spread risk is modeled on Zurich Insurance Group investments only, and does not impact the liabilities. The Zurich Financial Services Group uses a risk-free rate for the valuation of its liabilities.

Economic credit spread sensitivities for the General Insurance business – current period

Table 10.a in USD millions, as of December 31, 2011	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(964)	(334)	(172)	(143)	(132)	**(1,744)**
Tax impact	228	79	41	34	31	**412**
Net impact after tax	(737)	(255)	(132)	(109)	(101)	**(1,333)**

Economic credit spread sensitivities for the General Insurance business – prior period

Table 10.b in USD millions, as of December 31, 2010	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(1,162)	(370)	(192)	(102)	(101)	**(1,926)**
Tax impact	235	75	39	21	20	**389**
Net impact after tax	(927)	(295)	(153)	(81)	(81)	**(1,537)**

Economic credit spread sensitivities for the Global Life business – current period

Table 11.a in USD millions, as of December 31, 2011	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Total Impact on Embeedded Value	(191)	(612)	(113)	(224)	(88)	**(1,229)**

Economic credit spread sensitivities for the Global Life business – prior period

Table 11.b in USD millions, as of December 31, 2010	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Total impact on Embedded Value	(187)	(534)	(100)	(155)	(99)	**(1,074)**

Economic credit spread sensitivities for the rest of the businesses – current period

Table 12.a in USD millions, as of December 31, 2011	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(521)	(15)	–	(3)	(1)	**(540)**
Tax impact	155	4	–	1	–	**160**
Net impact after tax	(365)	(12)	–	(2)	(1)	**(380)**

Economic credit spread sensitivities for the rest of the businesses – prior period

Table 12.b in USD millions, as of December 31, 2010	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(826)	(12)	(1)	(1)	(1)	**(841)**
Tax impact	204	2	–	–	–	**207**
Net impact after tax	(622)	(10)	–	(1)	(1)	**(634)**

Risk review *continued*

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 2011 net income attributable to shareholders would have been lower by USD 142 million (applying 2010 exchange rates to the 2011 result). In 2010 the result would have been higher by USD 202 million (applying 2009 exchange rates to the 2010 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 that might be taken to mitigate such changes. The sensitivities show the effects of a change of the exchange rates only, while other assumptions remain unchanged. The sensitivities 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. 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.

Table 13

Sensitivity of the Group's total IFRS equity to exchange rate fluctuations

in USD millions, as of December 31	**2011**	2010
10% increase in		
EUR/USD rate	1,049	907
GPB/USD rate	311	398
CHF/USD rate	(302)	(136)
Other currencies/USD rates	476	480

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 categories of assets:

- 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 alternative internal credit ratings. The Zurich Financial Services Group maintains counterparty credit risk databases, which record external and internal sources of credit intelligence.

The Zurich Financial Services Group regularly tests and analyzes credit risk scenarios and prepares possible contingency measures, which may be implemented should the credit risk environment worsen. The Zurich Financial Services Group adjusts 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. The Zurich Financial Services Group has 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, deductibles, trade credit and surety.

Macro review of the credit risk environment

2011 saw the progressive deterioration of sovereign credit quality in developed markets, including Standard & Poor's downgrade of Japan by one notch in January, the U.S. in August, and nine European nations in January 2012. Bond and credit default swap (CDS) spreads widened for G-10 nations in 2011 (average G-10 sovereign CDS spreads increased by 75 percent), and generally drove those nations' funding costs up. Trailing default rates were lower than in prior years; however, forecasts indicate higher default rates in 2012, particularly if losses from a Greek default or restructuring spread from banks to the broader economy.

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 Zurich Financial Services Group's limits for counterparty aggregation as of December 31, 2011 and December 31, 2010, respectively. The 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. The Zurich Insurance Group also has off-balance sheet exposures related to undrawn loan commitments of USD 35 million and USD 51 million as of December 31, 2011 and 2010, respectively. See note 25 of the Consolidated financial statements for undrawn loan commitments.

Risk review *continued*

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 8.6 billion as of December 31, 2011 and USD 9.6 billion as of December 31, 2010. 50 percent of the total was with the ten largest global banks, whose average rating was "A+" as of December 31, 2011 and 2010, respectively. The risk-weighted average rating of the overall cash portfolio has decreased from "A+" to "A" in 2011 due to several downgrades of large financial institutions.

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 14

Debt securities by rating of issuer

as of December 31	2011		2010	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	53,985	37.9%	73,407	52.5%
AA	36,830	25.8%	16,149	11.5%
A	35,002	24.5%	36,864	26.3%
BBB	13,550	9.5%	11,443	8.2%
BB and below	2,515	1.8%	1,769	1.3%
Unrated	757	0.5%	304	0.2%
Total	**142,639**	**100.0%**	**139,936**	**100.0%**

As of December 31, 2011, investment grade securities comprise 97.7 percent of the Zurich Insurance Group's debt securities, and 37.9 percent were rated "AAA". In 2011, mostly because of their high debt levels compared to GDP, a few sovereigns in developed economies, including the U.S. and Japan, and related financial institutions, were downgraded. Therefore, the rating distribution of the fixed income portfolio deteriorated slightly, driven mainly by the August 2011 downgrade of the U.S. sovereign debt and related credits from "AAA" to "AA+", resulting in a decline in "AAA" debt exposure of USD 22.3 billion, offset by an increase of USD 2.3 billion in "AAA" Eurozone sovereign debt exposures. In addition, the downgrades of some Eurozone government and similar entities caused breaches of internal rating category limits, which were actively managed as circumstances allowed. Aggregate debt exposures above applicable limits amounted to USD 775 million (less than 1 percent of the Zurich Insurance Group's debt securities) as of December 31, 2011. Debt securities rated "BBB" and below are within the limits of the Zurich Financial Services Group's risk policy. As of December 31, 2010, investment grade securities comprised 98.5 percent of debt securities, and 52.5 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 "A+" (2010: "AA-"). Applying a linear average, the average rating would be "AA", (2010: "AA"), which is in line with the Zurich Financial Services Group's risk policy.

As of December 31, 2011 the largest concentration in the Zurich Insurance Group's debt securities portfolio is in government and supranational debt securities at 46.6 percent. A total of USD 38.7 billion or 50.1 percent of the non-government and non-supranational debt securities are secured. As of December 31, 2010, 43.1 percent of the Zurich Insurance Group's debt portfolio was invested in governments and supranationals and a total of USD 41.3 billion or 51.4 percent of the non-government and non-supranational debt securities were secured.

Table 15

The Zurich Insurance Group's debt exposure to Eurozone government & supranationals & similar

in USD millions, as of December 31	**2011**	2010
Germany	8,148	7,086
France	4,149	3,394
Austria	2,278	1,915
Belgium	1,588	1,224
Netherlands	1,714	1,000
Peripheral (GIIPS)	10,886	11,579
Greece	8	36
Ireland	343	856
Italy	5,419	7,202
Portugal	424	753
Spain	4,692	2,732
Rest of Eurozone	622	695
Eurozone Supranationals & similar	111	36
Total	**29,496**	**26,930**

As shown in the table above, the Zurich Insurance Group had debt exposure to Eurozone nations of USD 29.5 billion and USD 26.9 billion as of December 31, 2011 and 2010, respectively. Exposure to Greece, Ireland, Italy, Portugal and Spain amounted to USD 10.9 billion and USD 11.6 billion as of December 31, 2011 and 2010, respectively. In accordance with the Zurich Financial Services Group's risk limits, exposure to peripheral sovereign debt, in particular subordinated bank debt, was actively and selectively reduced in 2011. In addition to the above debt exposure, the Zurich Insurance Group had sovereign loan exposure of USD 4.9 billion and USD 5.7 billion to Germany, and sovereign loan exposure of USD 7 million and USD 20 million to Austria as of December 31, 2011 and 2010, respectively.

The second largest concentration in the Zurich Insurance Group's debt securities portfolio is to financial institutions (including banks), at 21.7 percent, of which 45.2 percent is secured. In response to the European sovereign debt crisis, the Zurich Financial Services Group identified and selectively reduced unsecured and subordinated credit exposure issued by banks with weak credit profiles, and credit exposure to banks supported by weaker sovereigns.

The third largest concentration in the Zurich Insurance Group's debt securities portfolio is to structured finance securities (mortgage backed securities (MBS)/asset backed securities (ABS) and similar). Although credit risks of the 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. 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 "A-." 57 percent and 54 percent of the business ceded to reinsurers that fall below "A-" or are not rated are collateralized, as of December 31, 2011 and 2010, respectively. Of these percentages, 52 percent and 42 percent are ceded to captive insurance companies, in 2011 and 2010, respectively.

Reinsurance assets include reinsurance recoverables of USD 19.5 billion and USD 18.9 billion as of December 31, 2011 and 2010, respectively, which are the reinsurers' share of reserves for insurance contracts, and receivables arising from ceded reinsurance, gross of allowance for impairment, of USD 1.2 billion and USD 1.2 billion as of December 31, 2011

Risk review *continued*

and 2010, respectively. Reserves for potentially uncollectible amounts of reinsurance assets amount to USD 206 million and USD 234 million as of December 31, 2011 and 2010, 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 on the following page 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, 2010, collateral increased by USD 200 million to USD 8.2 billion.

The risk-weighted average credit quality of reinsurance assets (including receivables, but after deduction of collateral) was "A" as of December 31, 2011 and 2010. 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.

Table 16

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

as of December 31				**2011**				2010
	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	75	1.1%	90	0.4%	88	1.5%	94	0.5%
AA	1,109	16.9%	6,547	32.0%	1,150	20.2%	6,729	33.8%
A	3,260[1]	49.8%	9,406	46.0%	2,482	43.7%	8,884	44.6%
BBB	708	10.8%	1,863	9.1%	700	12.3%	1,596	8.0%
BB	185	2.8%	412	2.0%	168	2.9%	600	3.0%
B	45	0.7%	101	0.5%	27	0.5%	101	0.5%
Unrated	1,167	17.8%	2,016	9.9%	1,070	18.8%	1,906	9.6%
Total	**6,550**	**100.0%**	**20,435[2]**	**100.0%**	**5,683**	**100.0%**	**19,910[2]**	**100.0%**

[1] The increase in ceded premiums is primarily due to the Part VII transfer of a run-off portfolio, pending regulatory approval.
[2] The value of the collateral received amounts to USD 8.2 billion and USD 8.0 billion as of December 31, 2011 and 2010, 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 5.2 billion, including mortgage loans given as collateral) and in Switzerland (USD 4.2 billion); these are predominantly secured against residential property. 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 review, and revalue when necessary, mortgage loans 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.

In Switzerland, the residential property market has seen steady price growth since 2000, raising concerns about the development of a price bubble. Nevertheless, with the exception of the Lake Geneva area, where residential real estate prices have doubled in the last 10 years, price appreciation in the Swiss market has been modest. In 2011, the Zurich Financial Services Group undertook a review of the Swiss mortgage portfolio in which critical positions, large loans (concentrations) and regional risks were evaluated. No major risks of impairment were identified in this review. Mortgages in the Lake Geneva region represent approximately 31 percent of the Swiss portfolio, and the bulk of those mortgages was granted years ago and is therefore not affected by recent price developments. Furthermore, to mitigate the impact of potential bubbles in the portfolio, the Zurich Financial Services Group has established a process to regularly review regional property markets, and to tighten underwriting standards in areas with strong price appreciation. A similar portfolio review was undertaken for the German mortgage portfolio in 2011 and no major risks were identified. The Zurich Financial Services Group's German and Swiss mortgage portfolios remain strong and well managed, loss impairments and losses remain low and LTV lending buffers are generally strong.

Mortgage loans given as collateral relate to German mortgages that are subject to repurchase agreement, but where the Zurich Financial Services Group still retains the credit risk of the underlying mortgages. See note 15 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. 74.7 percent of the reported loans are to municipalities or government or supranational institutions, of which 74.3 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, 2011, a total of USD 9.6 billion or 73.4 percent of loans are secured. As of December 31, 2010, a total of USD 9.8 billion or 66.5 percent of loans were secured.

Table 17

Other loans by rating of issuer

as of December 31	2011		2010	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	7,547	57.5%	7,113	48.3%
AA	2,278	17.4%	2,313	15.7%
A	1,944	14.8%	3,587	24.3%
BBB and below	834	6.4%	81	0.5%
Unrated	510	3.9%	1,643	11.1%
Total	**13,113**	**100.0%**	**14,737**	**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 2011, 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.

Risk review *continued*

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

See note 18 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 following tables provide an analysis, for non unit-linked businesses, of the age of financial assets that are past due but not impaired and of financial assets that are individually determined to be impaired.

Analysis of financial assets – current period

Table 18.a

in USD millions, as of December 31, 2011	Debt securities	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**142,179**	**9,499**	**215**	**13,113**	**13,586**	**178,592**
Past due but not impaired financial assets. Past due by:						
1 to 90 days	–	91	4	1	1,070	1,166
91 to 180 days	–	14	1	–	259	274
181 to 365 days	–	15	1	–	186	202
> 365 days	–	23	2	–	283	308
Past due but not impaired financial assets	**–**	**144**	**7**	**1**	**1,799**	**1,951**
Financial assets impaired	**461**	**20**	**–**	**–**	**198**	**679**
Gross carrying value	**142,639**	**9,663**	**223**	**13,114**	**15,583**	**181,222**
Less: impairment allowance						
Impairment allowances on individually assessed financial assets	–	5	–	–	117	123
Impairment allowances on collectively assessed financial assets	–	9	–	–	203	211
Net carrying value	**142,639** [1]	**9,649**	**223**	**13,113**	**15,263**	**180,887**

[1] Available-for-sale debt securities are included net of USD 55 million of impairment charges recognized during the year.

Analysis of financial assets – prior period

Table 18.b

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**	**14,736**	**14,206**	**178,841**
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**	**14,738**	**16,607**	**182,071**
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** [1]	**10,032**	**743**	**14,737**	**16,284**	**181,733**

[1] Available-for-sale debt securities are included net of USD 137 million of impairment charges recognized during 2010.

The tables below show how the allowances for impairments of financial assets shown in tables 18.a and 18.b have developed over the 2010 and 2011 financial years.

Development of allowance for impairments – current period

Table 19.a

in USD millions	Debt securities held-to-maturity	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables
As of January 1, 2011	–	15	–	1	323
Increase/(decrease) in allowance for impairments	–	7	–	–	42
Amounts written-off	–	(8)	–	–	(31)
Transfers [1]	–	–	–	–	(2)
Foreign currency translation effects	–	–	–	–	(12)
As of December 31, 2011	**–**	**14**	**–**	**–**	**320**

[1] Due to the reclassification to held for sale of the Zurich Financial Services Group's operations in Bolivia (see note 5 of the Consolidated financial statements).

Risk review *continued*

Development of allowance for impairments – prior period

Table 19.b

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**

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 Zurich Financial Services Group-wide liquidity management policies and specific guidelines as to how local businesses have to plan, manage and report their local liquidity. These include 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 those that might arise 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 2011, the Zurich Financial Services Group was within its limits for asset liquidity. The fair value hierarchy tables in note 26 to the Consolidated financial statements segregate financial assets into three levels to reflect the basis of the determination of fair value. These tables indicate the high liquidity of the Zurich Financial Services Group's investments.

See note 21 of the Consolidated financial statements for additional information on debt obligation maturities and on credit facilities and note 25 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 executive management and quarterly reporting to the Risk Committee of the Board, 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 on the following page provides an analysis of the expected maturity profile of reserves for insurance contracts, net of reinsurance, based on expected cash flows without considering the surrender values as of December 31, 2011 and

2010. Reserves for unit-linked insurance contracts amounting to USD 59.1 billion and USD 61.8 billion as of December 31, 2011 and 2010, respectively, are not included in the table on the following page, as policyholders can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are borne by the policyholders of unit-linked contracts.

Table 20.a

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

in USD millions, as of December 31, 2011	Reserves for losses and loss adjustment expenses	Future life policyholders' benefits	Policyholders' contract deposits and other funds	Total
< 1 year	14,324	5,939	1,446	21,710
1 to 5 years	21,778	22,864	2,300	46,942
6 to 10 years	8,746	14,522	1,829	25,096
11 to 20 years	7,022	16,512	2,274	25,808
> 20 years	3,254	16,906	8,221	28,380
Total	**55,124**	**76,742**	**16,070**	**147,936**

Table 20.b

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

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	17,655	6,433	1,123	25,211
1 to 5 years	22,854	20,585	2,083	45,522
6 to 10 years	8,034	15,683	2,448	26,165
11 to 20 years	5,251	18,258	2,231	25,740
> 20 years	2,220	15,932	7,300	25,452
Total	**56,014**	**76,891**	**15,184**	**148,089**

For additional information on reserves for insurance contracts, see note 8 of the Consolidated financial statements.

The following table provides an analysis of the maturity of liabilities for investment contracts based on expected cash flows as of December 31, 2011 and 2010. The undiscounted contractual cash flows for liabilities for investment contracts are USD 51.0 billion and USD 50.8 billion as of December 31, 2011 and December 31, 2010, respectively. Liabilities for unit-linked investment contracts amount to USD 44.2 billion and USD 44.9 billion as at December 31, 2011 and 2010, 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 allow for surrender of the contract by the policyholder at any time. Liabilities for such contracts amounted to USD 950 million and USD 1.0 billion as of December 31, 2011 and 2010 respectively. The Zurich Financial Services Group has established active management of the Global Life in-force business to improve persistency and retention.

Table 21.a

Expected maturity profile for liabilities for investment contracts – current period

in USD millions, as of December 31, 2011	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	3,895	179	276	4,349
1 to 5 years	5,802	318	1,339	7,459
5 to 10 years	6,316	168	973	7,456
10 to 20 years	8,467	123	782	9,372
> 20 years	19,739	47	2,238	22,024
Total	**44,220**	**834**	**5,607**	**50,661**

Risk review *continued*

Expected maturity profile for liabilities for investment contracts – prior period

Table 21.b

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
5 to 10 years	6,805	143	932	7,879
10 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**

See notes 15 and 21 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 19 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 to third parties that engage in investment 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 25 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 such as outsourcing, catastrophes, legislation, or external fraud.

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 and quantify 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 Zurich Financial Services 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 2011, the scoping resulted in at least 34 percent of business units, responsible for at least 61 percent of operational risk Risk-Based Capital, conducting operational risk assessments. In the assessments, the Zurich Financial Services Group uses 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 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 continued to focus on its 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 governance of electronic and non-electronic information assets to protect data from theft or loss and ensure compliance with regulation and policies.

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 2011, the Zurich Financial Services Group continued to develop its existing business continuity capability by implementing a more globally consistent approach to business continuity and crisis management.

Addressing the risk of claims and non-claims fraud continues to be of importance. In 2011, the Zurich Financial Services Group continued its 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 and business processes. Operational effectiveness of key controls is assessed by self assessment and independent testing.

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 the Zurich Financial Services Group's reputation, and therefore, effectively managing each type of risk helps the Zurich Financial Services Group 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.

Risk review *continued*

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 the 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 economic, regulatory, 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 the Zurich Financial Services Group to take advantage of growth opportunities as they arise. Such actions are performed as and when required and include dividends, capital repayments, 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 capital levels. In 2011, the Zurich Financial Services Group paid a dividend out of the capital contribution reserve, repaid outstanding preferred securities and refinanced with subordinated debt securities, and replaced maturing senior debt with new senior debt.

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, 2011, 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.

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, and issuances and redemptions of debt, see notes 21 and 22 of the Consolidated financial statements.

Analysis of capital adequacy

Insurance Financial Strength Rating

The Zurich Financial Services Group maintains interactive relationships with three global rating agencies: Standard and Poor's, Moody's and A.M. Best. The Insurance Financial Strength Rating (IFSR) of the Zurich Financial Services Group's main operating entity is an important element of the Zurich Financial Services Group's competitive position. Moreover, the Zurich Financial Services Group's credit ratings derived from the financial strength ratings affect the cost of capital.

As of December 31, 2011 the IFSR of Zurich Insurance Company Ltd, the main operating entity of the Zurich Financial Services Group, was rated "AA-/stable" by Standard and Poor's, "Aa3/stable" by Moody's and "A+ (superior)/stable" by A.M. Best. On March 9, 2011, Moody's upgraded the IFSR of the Zurich Insurance Company Ltd to "Aa3" from "A1," recognizing the improvements in the Zurich Financial Services Group's capital adequacy, financial flexibility, and asset quality, while producing a very good operating performance in recent times and maintaining an excellent market position and excellent business diversification.

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 European Economic Area countries, and the U.S.

Risk review *continued*

In Switzerland, the transition period for the Swiss Solvency Test (SST) expired and the SST became 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 2011, 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. The 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 January 1, 2011 and as of July 1, 2011.

In European 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 61 million) of premiums at 18 percent and the first tranche (EUR 43 million) of claims at 26 percent. In these calculations, premiums and claims for certain liability lines are increased by 50 percent. A reduction is given for reinsurance based on reinsurance claims recoveries over three years as a percentage of gross claims in those years, limited to a maximum of 50 percent. Life insurance companies are required to maintain a minimum solvency margin generally of 4 percent of insurance reserves, but reduced to 1 percent of insurance reserves for life insurance where the credit and market risks are carried by policyholders, plus 0.3 percent of the amount at risk under insurance policies. The same minimum capital requirements are applicable for insurance entities operating in Switzerland. In certain European countries, both EU and non-EU, further requirements have been imposed by regulators.

On November 25, 2009 the directive on Solvency II 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.

The Zurich Financial Services Group is fully engaged in an extensive program of work in order to meet all Solvency II requirements when they enter into force. The Zurich Financial Services Group intends to use its internal model, which aligns the Solvency II approach with that used for the SST for its major EU subsidiaries. The Zurich Financial Services Group has started the pre-application process in order to gain regulatory approval for the internal model from EU supervisors. The Central Bank of Ireland became the Zurich Financial Services Group's EU lead regulator in 2011.

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 Group level, the 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.

As of December 31, 2010 and 2011, the Zurich Financial Services Group and its material, regulated subsidiaries complied with the applicable regulatory minimum capital requirements.

Consolidated financial statements

Contents

I

1. Consolidated income statements 53
2. Consolidated statements of comprehensive income 54
3. Consolidated balance sheets 56
4. Consolidated statements of cash flows 58
5. Consolidated statements of changes in equity 60

II

1. Basis of presentation 62
2. New accounting standards and amendments to published accounting standards 66
3. Summary of significant accounting policies 67
4. Critical accounting judgments and estimates 82
5. Acquisitions and divestments 87
6. Investments 90
7. Derivative financial instruments and hedge accounting 98
8. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts 103
9. Liabilities for investment contracts with and without discretionary participation features (DPF) 109
10. Equity component relating to contracts with DPF 109
11. Gross and ceded insurance revenues and expenses 110
12. Deferred policy acquisition costs and deferred origination costs 111
13. Administrative and other operating expenses 111
14. Farmers management fees and other related revenues 112
15. Mortgage loans given as collateral and collateralized loans 112
16. Property and equipment 113
17. Goodwill and other intangible assets 114
18. Receivables and other assets 117
19. Other liabilities 117
20. Income taxes 119
21. Senior and subordinated debt 123
22. Shareholders' equity 127
23. Employee benefits 128
24. Share-based compensation and cash incentive plans 134
25. Contingent liabilities, contractual commitments and financial guarantees 137
26. Fair value of financial assets and financial liabilities 141
27. Related party transactions 148
28. Farmers Exchanges 150
29. Segment information 152
30. Significant subsidiaries 164
31. Events after the balance sheet date 167

III

1. Report of the statutory auditor 168

Consolidated income statements

in USD millions, for the years ended December 31	Notes	2011	Restated 2010
Revenues			
Gross written premiums		47,748	47,559
Policy fees		2,452	2,406
Gross written premiums and policy fees		50,200	49,965
Less premiums ceded to reinsurers		(6,550)	(5,683)
Net written premiums and policy fees		43,650	44,282
Net change in reserves for unearned premiums	11	(751)	1,234
Net earned premiums and policy fees		42,899	45,516
Farmers management fees and other related revenues	14	2,767	2,778
Net investment result on Group investments	6	9,470	8,289
Net investment income on Group investments		7,142	7,021
Net capital gains/(losses) and impairments on Group investments		2,328	1,268
Net investment result on unit-linked investments	6	(3,544)	10,093
Net gain/(loss) on divestments of businesses	5	6	38
Other income		1,488	1,416
Total revenues		53,086	68,131
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	11	38,106	38,591
Less ceded insurance benefits and losses	11	(5,052)	(4,106)
Insurance benefits and losses, net of reinsurance	11	33,054	34,484
Policyholder dividends and participation in profits, net of reinsurance	11	(2,685)	10,801
Underwriting and policy acquisition costs, net of reinsurance	11	8,523	8,649
Administrative and other operating expense	13	8,170	7,900
Interest expense on debt	21	616	728
Interest credited to policyholders and other interest		463	507
Total benefits, losses and expenses		48,141	63,069
Net income before income taxes		4,945	5,062
Income tax expense	20	(984)	(1,390)
attributable to policyholders	20	242	(462)
attributable to shareholders	20	(1,226)	(928)
Net income after taxes		**3,961**	3,672
attributable to non-controlling interests		73	110
attributable to shareholders		3,888	3,561

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		
2010		
Comprehensive income for the year	3,561	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
2011		
Comprehensive income for the year	3,888	284
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		799
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(643)
Deferred income tax (before foreign currency translation effects)		117
Foreign currency translation effects		11

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
	65	(633)	28	(161)	1,386	4,947	24	4,971
	(45)	(613)	41	(190)	2,265			
	134	(20)	–	–	(474)			
	(6)	–	(13)	51	(485)			
	(18)	–	–	(22)	80			
	176	(741)	54	(929)	(1,156)	2,731	(24)	2,707
	207	(698)	73	(1,321)	(940)			
	53	(43)	–	–	(632)			
	(71)	–	(19)	348	376			
	(13)	–	–	44	41			

Consolidated financial statements *continued*

Consolidated balance sheets

Assets

in USD millions, as of	Notes	12/31/11	Restated 12/31/10	Restated 01/01/10
Investments				
Total Group investments		194,151	196,846	195,344
Cash and cash equivalents		8,583	9,559	11,146
Equity securities		11,537	14,035	12,650
Debt securities		142,639	139,936	136,439
Real estate held for investment		8,468	8,274	7,789
Mortgage loans		9,649	10,032	10,472
Other loans		13,113	14,737	16,619
Investments in associates and joint ventures		161	188	229
Holdings in related companies		–	86	–
Investments for unit-linked contracts		104,603	107,947	99,167
Total investments	6	298,754	304,794	294,510
Reinsurers' share of reserves for insurance contracts	8	19,361	18,816	18,751
Deposits made under assumed reinsurance contracts		2,711	2,837	3,870
Deferred policy acquisition costs	12	16,864	16,281	16,146
Deferred origination costs	12	824	866	856
Accrued investment income		2,600	2,758	2,753
Receivables and other assets	18	32,705	17,609	16,999
Mortgage loans given as collateral	15	223	743	1,102
Deferred tax assets	20	2,060	2,059	2,417
Assets held for sale[1]		54	–	67
Property and equipment	16	1,578	1,687	1,939
Goodwill	17	2,060	2,104	2,297
Other intangible assets	17	5,773	5,952	7,035
Total assets		**385,566**	**376,507**	**368,743**

[1] See note 5.

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	12/31/11	Restated 12/31/10	Restated 01/01/10
Liabilities				
Reserve for premium refunds		554	518	649
Liabilities for investment contracts	9	50,661	50,667	46,124
Deposits received under ceded reinsurance contracts		1,543	1,362	1,558
Deferred front-end fees		5,720	5,626	5,543
Reserves for insurance contracts	8	240,811	242,719	242,172
Obligations to repurchase securities		1,794	3,330	3,976
Accrued liabilities		3,087	2,975	2,795
Other liabilities	19	30,513	16,650	15,481
Collateralized loans	15	223	743	1,102
Deferred tax liabilities	20	4,049	4,552	4,411
Liabilities held for sale[1]		55	–	–
Senior debt	21	7,065	7,110	6,970
Subordinated debt	21	5,476	6,824	9,026
Total liabilities		**351,550**	**343,075**	**339,808**
Equity				
Share capital	22	660	660	660
Additional paid-in capital	22	14,767	16,045	16,024
Net unrealized gains/(losses) on available-for-sale investments		2,622	2,338	251
Cash flow hedges		232	56	(9)
Cumulative foreign currency translation adjustment		(4,474)	(3,732)	(3,099)
Revaluation reserve		180	126	98
Retained earnings		17,395	16,370	12,965
Shareholders' equity		31,381	31,862	26,890
Non-controlling interests		2,634	1,570	2,044
Total equity		**34,015**	**33,432**	**28,935**
Total liabilities and equity		**385,566**	**376,507**	**368,743**

[1] See note 5.

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

Consolidated financial statements *continued*

Consolidated statements of cash flows

in USD millions, for the year ended December 31	**2011**	Restated 2010
Cash flows from operating activities		
Net income attributable to shareholders	3,888	3,561
Adjustments for:		
Net (gain)/loss on divestments of businesses	(6)	(38)
Income from equity method accounted investments	(12)	(17)
Depreciation, amortization and impairments of fixed and intangible assets	994	1,077
Other non-cash items	48	746
Underwriting activities:	(2,245)	13,006
Reserves for insurance contracts, gross	*(1,189)*	5,781
Reinsurers' share of reserves for insurance contracts	*(728)*	(18)
Liabilities for investment contracts	*167*	7,059
Deferred policy acquisition costs	*(860)*	(611)
Deferred origination costs	*34*	(23)
Deposits made under assumed reinsurance contracts	*133*	1,032
Deposits received under ceded reinsurance contracts	*199*	(214)
Investments:	2,510	(17,492)
Net capital (gains)/losses on total investments and impairments	*2,973*	(9,801)
Net change in trading securities and derivatives	*(78)*	(143)
Net change in money market investments	*1,695*	466
Sales and maturities		
Debt securities	*106,991*	94,649
Equity securities	*52,243*	57,864
Other	*88,820*	45,349
Purchases		
Debt securities	*(106,363)*	(103,187)
Equity securities	*(54,555)*	(56,960)
Other	*(89,216)*	(45,730)
Proceeds from sale and repurchase agreements	(1,572)	(502)
Movements in receivables and payables	570	1,324
Net changes in other operational assets and liabilities	290	44
Deferred income tax, net	(121)	263
Net cash provided by/(used in) operating activities	4,343	1,971

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	2011	Restated 2010
Cash flows from investing activities		
Sales of property and equipment	49	117
Purchase of property and equipment	(199)	(182)
Disposal of equity method accounted investments, net	42	2
Acquisitions of companies, net of cash acquired	(1,090)	(48)
Divestments of companies, net of cash balances	20	(27)
Dividends from equity method accounted investments	3	3
Net cash used in investing activities	(1,175)	(135)
Cash flows from financing activities		
Dividends paid	(1,982)	(7)
Issuance of share capital	1	(7)
Redemption of preferred securities and transactions with non-controlling interests	(1,302)	–
Issuance of debt	2,645	1,084
Repayments of debt outstanding	(3,919)	(3,205)
Net cash provided by/(used in) financing activities	(4,557)	(2,136)
Foreign currency translation effects on cash and cash equivalents	150	(176)
Change in cash and cash equivalents excluding change in cash held as collateral for securities lending	(1,239)	(475)
Cash and cash equivalents as of January 1, excluding cash held as collateral for securities lending	11,102	11,577
Cash and cash equivalents as of December 31, excluding cash held as collateral for securities lending	**9,863**	**11,102**
Change in cash held as collateral for securities lending		(493)
Cash and cash equivalents as of January 1, including cash held as collateral for securities lending	11,102	12,070
Cash and cash equivalents as of December 31, including cash held as collateral for securities lending	**9,863**	**11,102**
of which:		
– cash and cash equivalents – Group investments	8,583	9,559
– cash and cash equivalents – unit linked	1,280	1,544
Other supplementary cash flow disclosures		
Other interest income received	7,227	6,796
Dividend income received	1,779	1,668
Other interest expense paid	(1,121)	(1,325)
Income tax paid	(1,253)	(1,340)

As of December 31, 2011 and 2010, cash and cash equivalents held to meet local regulatory requirements were USD 1,600 million and USD 923 million, respectively.

Cash and cash equivalents

in USD millions, as of December 31	2011	Restated 2010
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,240	7,264
Cash equivalents	4,623	9,834
Total	**9,863**	**17,097**

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, 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
Balance as of December 31, 2010, as previously reported	660	16,045
Total adjustments due to restatement	–	–
Balance as of December 31, 2010, as restated	660	16,045
Issuance of share capital	–	1
Dividends to shareholders	–	–
Redemption of preferred shares[1]	–	(1,284)
Share-based payment transactions	–	22
Transactions with non-controlling shareholders	–	(18)
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, 2011	**660**	**14,767**

[1] On April 17, 2011, Zurich Insurance Company Ltd repaid an amount of CHF 1.3 billion (USD 1.3 billion) to Zurich Financial Services LTD.

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
	357	(9)	(3,099)	98	12,938	26,969	2,045	29,014
	(106)	–	–	–	27	(79)	(1)	(79)
	251	(9)	(3,099)	98	12,965	26,890	2,044	28,935
	–	–	–	–	–	(7)	–	(7)
	–	–	–	–	–	–	(7)	(7)
	–	–	–	–	–	28	–	28
	–	–	–	–	4	4	–	4
	2,087	65	(633)	28	3,401	4,947	24	4,971
	–	–	–	–	*3,561*	*3,561*		
	2,087	–	–	–	–	*2,087*		
	–	*65*	–	–	–	*65*		
	–	–	*(633)*	–	–	*(633)*		
	–	–	–	*28*	–	*28*		
	–	–	–	–	*(161)*	*(161)*	–	–
	–	–	–	–	–	–	(491)	(491)
	2,338	56	(3,732)	126	16,370	31,862	1,570	33,432
	2,444	56	(3,738)	126	16,349	31,941	1,570	33,512
	(106)	–	5	–	21	(79)	(1)	(80)
	2,338	56	(3,732)	126	16,370	31,862	1,570	33,432
	–	–	–	–	–	1	–	1
	–	–	–	–	(1,934)	(1,934)	(49)	(1,983)
	–	–	–	–	–	(1,284)	–	(1,284)
	–	–	–	–	–	22	–	22
	–	–	–	–	–	(18)	–	(18)
	284	176	(741)	54	2,959	2,731	(24)	2,707
	–	–	–	–	*3,888*	*3,888*		
	284	–	–	–	–	*284*		
	–	*176*	–	–	–	*176*		
	–	–	*(741)*	–	–	*(741)*		
	–	–	–	*54*	–	*54*		
	–	–	–	–	*(929)*	*(929)*	–	–
	–	–	–	–	–	–	1,137	1,137
	2,622	**232**	**(4,474)**	**180**	**17,395**	**31,381**	**2,634**	**34,015**

Consolidated financial statements *continued*

Zurich Insurance Company Ltd 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 U.S., 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 7, 2012 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 29, 2012.

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. Any subsequent changes to such pronouncements are not reflected in the Zurich Insurance Group's accounting policies. In case of business combinations, 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 16 to 50, and they form an integral part of the Consolidated financial statements.

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.

In the Zurich Insurance Group's General Insurance business in Germany, prior year results were misstated for a period of time due to some errors in adjustments between local GAAP and IFRS. This resulted in incorrect reserves for losses, unearned premium reserves and deferred acquisition costs for some specific products. The errors identified by management, have resulted in a restatement of equity of USD 80 million and USD 79 million as of December 31, 2010 and January 1, 2010 respectively. For the year ended December 31, 2010 the impact on net income after taxes was a loss of USD 6 million and on business operating profit a loss of USD 5 million. The impact on various line items as of December 31, 2010 in the consolidated balance sheet and the consolidated income statement are set out in the restatement tables. Consolidated income statements, consolidated balance sheets, consolidated statements of cash flows, consolidated statements of changes in equity and notes 8, 11, 12, 20, 22 and 29 have been restated accordingly.

In addition, there have been further restatements on the balance sheet and reclassifications as previously disclosed:

- Certain balances erroneously reported as cash and cash equivalents amounting to USD 376 million and USD 723 million as of December 31, 2010, and January 1, 2010, respectively, are now presented as other loans. In addition, certain balances erroneously reported as unit-linked cash and cash equivalents amounting to USD 5,619 million and USD 4,917 million as of December 31, 2010, and January 1, 2010, respectively, are now presented under unit-linked other loans. These changes, as well as a change in presentation of certain debt during 2011 result in a decrease of net cash provided by operating activities of USD 766 million, a decrease in net cash used in financing activities of USD 411 million and a decrease of cash and cash equivalents by USD 5,995 million as of December 31, 2010 as presented in the cash flow statement. These changes in presentation are reflected in the consolidated balance sheets, consolidated income statements, consolidated statements of cash flows and note 6.

- The Zurich Insurance Group erroneously classified certain life insurance products. The classification was corrected in 2011 as the impact on the Zurich Insurance Group's consolidated income statement was not material. The reclassifications in the balance sheet from other liabilities to future life policyholders' benefits and liabilities for investment contracts as well as from future life policyholders' benefits to liabilities for investment contracts, from liabilities for investment contracts to reserves for unit-linked contracts and from reserves for unit-linked contracts to liabilities for investment contracts are set out in notes 8 and 9.

- Some assets related to non-risk transfer reinsurance deposits reported under receivables and other assets amounting to USD 4 million as of December 31, 2010, are now presented under deposits made under assumed reinsurance contracts in order to ensure consistency with the treatment of other related items.

- Certain balances erroneously reported under net unrealized gains/losses on available-for-sale investments amounting to USD 106 million as of December 31, 2010 and 2009 are now presented under retained earnings. This change in presentation is reflected in the consolidated balance sheet, consolidated statements of changes in equity and note 6.

The Zurich Insurance Group's balance sheet is not presented using a current/non-current classification. The following balances are generally considered to be current: cash and cash equivalents, deferred policy acquisition costs on 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, investments in associates and joint ventures, deferred policy acquisition costs on life insurance contracts, deferred tax assets, property and equipment, goodwill, other intangible assets and deferred tax liabilities.

The following balances are mixed in nature (including both current and non-current portions): debt securities, mortgage loans, other loans, reinsurers' share of 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, senior and subordinated debt, and assets and liabilities held for sale.

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 15), other financial liabilities (table 19.2) and outstanding debt (table 21.3).

Changes to operating segments are shown in note 29.

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.

Consolidated financial statements *continued*

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 64 million and USD 139 million for the years ended December 31, 2011 and 2010, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 111 million and USD (12) million for the years ended December 31, 2011 and 2010, respectively.

Principal exchange rates

Table 1

USD per foreign currency unit	Balance sheets		Income statements and cash flows	
	12/31/2011	12/31/2010	**2011**	2010
Euro	1.2969	1.3391	1.3927	1.3272
Swiss franc	1.0666	1.0707	1.1326	0.9617
British pound	1.5533	1.5596	1.6039	1.5459

Restatement of the consolidated income statement

Table 1.2

in USD millions, for the year ended December 31, 2010	As reported	Restatements	As restated
Revenues			
Gross written premiums	47,559	–	47,559
Policy fees	2,406	–	2,406
Gross written premiums and policy fees	49,965	–	49,965
Less premiums ceded to reinsurers	(5,683)	–	(5,683)
Net written premiums and policy fees	44,282	–	44,282
Net change in reserves for unearned premiums	1,227	7	1,234
Net earned premiums and policy fees	45,509	7	45,516
Farmers management fees and other related revenues	2,778	–	2,778
Net investment result on Group investments	8,289	–	8,289
Net investment income on Group investments	7,021	–	7,021
Net capital gains/(losses) and impairments on Group investments	1,268	–	1,268
Net investment result on unit-linked investments	10,093	–	10,093
Net gain/(loss) on divestments of businesses	38	–	38
Other income	1,416	–	1,416
Total revenues	68,124	7	68,131
Benefits, losses and expenses		–	
Insurance benefits and losses, gross of reinsurance	38,591	–	38,591
Less ceded insurance benefits and losses	(4,106)	–	(4,106)
Insurance benefits and losses, net of reinsurance	34,484	–	34,484
Policyholder dividends and participation in profits, net of reinsurance	10,801	–	10,801
Underwriting and policy acquisition costs, net of reinsurance	8,636	13	8,649
Administrative and other operating expense	7,900	–	7,900
Interest expense on debt	728	–	728
Interest credited to policyholders and other interest	507	–	507
Total benefits, losses and expenses	63,057	13	63,069
Net income before income taxes	5,067	(6)	5,062
Income tax expense	(1,389)	–	(1,390)
attributable to policyholders	(462)	–	(462)
attributable to shareholders	(928)	–	(928)
Net income after taxes	**3,678**	**(6)**	**3,672**
attributable to non-controlling interests	110	–	110
attributable to shareholders	3,567	(6)	3,561

Restatement and reclassifications of the consolidated balance sheet

Table 1.3

in USD millions, as of December 31, 2009	As reported	Reclassifications	Restatements	As restated
Investments				
Total Group investments	196,846	–	–	196,846
Cash and cash equivalents	9,935	–	(376)	9,559
Equity securities	14,035	–	–	14,035
Debt securities	139,936	–	–	139,936
Real estate held for investment	8,274	–	–	8,274
Mortgage loans	10,032	–	–	10,032
Other loans	14,361	–	376	14,737
Equity method accounted investments	188	–	–	188
Other investments	86	–	–	86
Investments for unit-linked contracts	107,947	–	–	107,947
Total investments	304,794	–	–	304,794
Reinsurers' share of reserves for insurance contracts	18,809	–	7	18,816
Deposits made under assumed reinsurance contracts	2,832	4	–	2,837
Deferred policy acquisition costs	16,326	–	(45)	16,281
Deferred origination costs	866	–	–	866
Accrued investment income	2,758	–	–	2,758
Receivables and other assets	17,613	(4)	–	17,609
Mortgage loans given as collateral	743	–	–	743
Deferred tax assets	2,059	–	–	2,059
Property and equipment	1,687	–	–	1,687
Goodwill	2,104	–	–	2,104
Other intangible assets	5,952	–	–	5,952
Total assets	**376,545**	**–**	**(38)**	**376,507**
Liabilities				
Reserve for premium refunds	518	–	–	518
Liabilities for investment contracts	50,667	–	–	50,667
Deposits received under ceded reinsurance contracts	1,362	–	–	1,362
Deferred front-end fees	5,626	–	–	5,626
Reserves for insurance contracts	242,646	–	72	242,719
Obligations to repurchase securities	3,330	–	–	3,330
Accrued liabilities	2,975	–	–	2,975
Other liabilities	16,650	–	–	16,650
Collateralized loans	743	–	–	743
Deferred tax liabilities	4,582	–	(31)	4,552
Senior debt	7,110	–	–	7,110
Subordinated debt	6,824	–	–	6,824
Total liabilities	**343,033**	**–**	**42**	**343,075**
Equity				
Shareholders' equity	31,941	–	(79)	31,862
Non-controlling interests	1,570	–	(1)	1,570
Total equity	**33,512**	**–**	**(80)**	**33,432**
Total liabilities and equity	**376,545**	**–**	**(38)**	**376,507**

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, 2011 and relevant for the Zurich Insurance Group's operations

The following amendments to accounting standards and interpretations of standards relevant to the Zurich Insurance Group have been implemented for the financial year beginning January 1, 2011 with no material impact on the Zurich Insurance Group's financial position or performance.

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

In November 2009, amendments to International Financial Reporting Interpretations Committee (IFRIC) 14 "Prepayments of a minimum funding requirement" were issued. The amendments to IFRIC 14, which itself is an interpretation of IAS 19 "Employee Benefits" is effective for annual reporting periods beginning on or after January 1, 2011. In the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements, IFRIC 14 permits the entity to treat the benefit of such an early payment as an asset.

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 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 a subsequent 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. In December 2011 the IASB issued an amendment to IFRS 9 that defers its mandatory effective date from January 1, 2013 to January 1, 2015, with earlier adoption permitted. The amendment also provides relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9 and requires additional transition disclosures to describe the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The Zurich Insurance Group plans to assess the impact of this standard on its financial statements in conjunction with the revised standard IFRS 4 "Insurance Contracts". Changes to the IFRS timetable may have an impact on this approach.

In June 2010, the IASB issued amendments to IAS 1 "Financial Statement Presentation". The amendments address the presentation of components of other comprehensive income (OCI) and will be effective for annual reporting periods beginning on or after July 1, 2012.

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 of the risk exposures relating to such transferred assets. The accounting treatment for such transferred assets is unchanged. The amendment will be effective for annual reporting periods beginning on or after July 1, 2011.

In May 2011, IFRS 13 "Fair Value Measurement" was issued by the IASB. IFRS 13 provides guidance on the measurement of fair value and requires disclosures about fair value measurements to increase the transparency. It does not require any new measurements of assets or liabilities at fair value, any changes in what is measured or how to present changes in fair value. IFRS 13 applies when other standards require or permit fair value measurements and will be effective for annual reporting periods beginning on or after January 1, 2013, with earlier adoption permitted.

In May 2011, the IASB issued IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities". IFRS 10 builds on existing principles by identifying control as the determining factor for consolidation for all types of entities. IFRS 11 "Joint Arrangements" provides principles for the financial reporting of joint arrangements. The standard addresses inconsistencies by requiring a single method to be applied by the Zurich Insurance Group for all its interests in jointly controlled entities. IFRS 12 provides a comprehensive standard on disclosure requirements for all forms of interests in other entitles (incl. joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles). The new standards are effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Zurich Insurance Group expects that the adoption of IFRS 10 may result in additional consolidation of certain structured entities that are currently accounted for as associates.

In June 2011, the IASB issued amendments to IAS 19 "Employee Benefits". The amendments primarily comprise clarification of the recognition, presentation and disclosure requirements for defined benefit plans. The amendments will be effective for annual reporting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Zurich Insurance Group expects that the adoption of the amendments will result in an increase of pension expense as the income from plan assets will be calculated using a high quality corporate bond rate rather than an expected return on assets rate.

In December 2011, the IASB issued amendment to IAS 32 "Financial Instruments: Presentation". The amendments address inconsistencies by clarifying the requirements for offsetting financial instruments. The amendments will be effective for annual periods beginning on or after January 1, 2014.

In December 2011, the IASB issued amendments to IFRS 7 "Financial Instruments: Disclosures" introducing disclosure requirements that are intended to better assess the potential effect of offsetting arrangements. The amendments apply for annual periods beginning on or after January 2013, and interim periods within those annual periods.

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. The effect 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 post-acquisition changes in the Zurich Insurance Group's share of the 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.

Consolidated financial statements *continued*

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 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 other comprehensive income (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-of-period exchange rates. Foreign currency non-monetary items which are carried at historical cost are translated at historical exchange rates. The resulting foreign currency differences are recorded in income, except for the following:

- when gains or losses on non-monetary items measured at fair value, such as available-for-sale equity securities, are recognized directly in OCI, any foreign currency component included in the gains or losses is also recognized directly in OCI;
- when 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 included directly in OCI as cumulative foreign currency translation adjustment.

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 that entitle 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 policy to be applied to 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.

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 and not as deposits.

Reserves for losses and loss adjustment expenses

Losses and loss adjustment expenses are charged to income as incurred. Reserves for losses and loss adjustment expenses represent 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 taking into account 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 deviations. These assumptions are locked-in at inception and are regularly assessed as part of the liability adequacy testing over the period of the contract.

Consolidated financial statements *continued*

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 policyholder 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.

Reserves for unit-linked contracts are based on the fair value of the financial instruments backing those contracts less any fees and assessments charged to the policyholders.

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, an option in IFRS 4 is used to measure the insurance liabilities using current financial and non-financial assumptions, 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 DPF the amount of the DPF 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 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 acquisition costs (DAC)

Costs that vary with and are directly related to the acquisition of new and renewal business, including for example commissions and certain underwriting and policy issue expenses, are deferred and subsequently amortized over a defined period. 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 a premium deficiency subsequently 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 DAC is adjusted for the impact of unrealized gains/(losses) on allocated investments that are recorded in OCI.

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.

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 by the reinsured 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 counterparties, changes in capital and surplus levels or changes in credit ratings of a reinsurer, and historical experience regarding collectibility from specific reinsurers. 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 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.

Consolidated financial statements *continued*

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 included in the calculation 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 providing investment management services. DOC is tested for recoverability annually.

The costs of acquiring new investment contracts without investment management services are included in the calculation of the effective interest rate used to measure the amortized cost of the related liabilities.

f) Investments excluding derivative financial instruments

Investments include financial assets (excluding derivative financial instruments), cash and cash equivalents and real estate held for investment.

Categories and measurement of investments (excluding derivative financial instruments)

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 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.

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 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 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 consolidated income statement when the disposal is completed.

Consolidated financial statements *continued*

Impairment of financial assets (excluding derivative financial instruments)

General

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. Objective evidence of impairment exists if one or more loss events occurred after the initial recognition of the asset which impact the estimated future cash flows such as:

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 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 the 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 further 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 quarterly 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, other European countries, 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 (less any impairment loss on that security previously recognized in income) and the current fair value. 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 the amortized cost that would have been calculated 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 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.

Consolidated financial statements *continued*

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 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, which 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 specified 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 transferred to 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
- 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, attorney-in-fact relationships, 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.

Consolidated financial statements *continued*

Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and jointly controlled entities and represents the excess of the cost of acquisition over the fair value of the Zurich Insurance Group's share of the net identifiable assets of the acquired entity at the acquisition date.

Goodwill on the acquisition of subsidiaries is capitalized as a separate line and reviewed for impairment annually, or more frequently if impairment indicators are observed. For the purpose of impairment testing, goodwill is allocated to cash generating units (CGU) based on the level at which management monitors operations and makes decisions relating to the continuation or disposal of assets and operations. On this basis, as of January 1, 2011, the Zurich Insurance Group aggregates CGUs on a General Insurance segment level. Within the segments Global Life and Farmers cash generating units are identified at either business unit level or individual reporting entity level.

Goodwill on the acquisition of associates and jointly controlled entities 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.

If goodwill has been allocated to a CGU and an operation within that unit is disposed of, the carrying amount of the operation includes attributable goodwill when determining the gain or loss on disposal.

Present value of future profits from acquired insurance contracts (PVFP)

An intangible asset representing the PVFP arises from the acquisition of life insurance businesses. Such an asset has a definite life and is 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 non-claims 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 and there is an ability to use or sell the software product;
- 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.

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) 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.

o) 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 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 costs relating to investment management services and operating expenses for real estate held for investment. These expenses are recognized on an accrual basis.

Consolidated financial statements *continued*

p) 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. With effect from 2011, share option grants were discontinued.

Under the equity-settled share-based compensation plans, the fair value of the employee services received in exchange for the grant of shares and/or previously 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 period before the vesting date is determined by reference to the fair value of the shares and/ or previously options granted. Non-market vesting conditions (for example, profitability and revenue growth targets) are included in assumptions to determine the number of shares and/or previously 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 additional paid-in capital. However, no subsequent adjustment to total additional paid-in capital is made after the vesting date.

The proceeds received when the shares are delivered or options are exercised are credited, net of any directly attributable transaction costs, to share capital (nominal value) and additional paid-in capital.

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.

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.

Past service costs represent the change in the defined benefit obligation following plan amendments that relate to employee service in prior periods. To the extent that past service costs are vested, they are recognized immediately. Unrecognized past service costs represent past service costs that have not yet vested, and are recognized 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.

q) 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.

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.

r) 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 they can be utilized against future taxable income in the respective jurisdictions.

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 related to certain investment contracts with DPF 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.

Consolidated financial statements *continued*

4. Critical accounting judgments 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 assets 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 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 may result in changes to established reserves. Items such as changes in law and interpretations of relevant case law, results of litigation, changes in medical costs, as well as costs of vehicle and home repair materials and labor rates can substantially impact ultimate settlement costs. Accordingly, the 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.

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 note 8 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 note 8 for further information on future life policyholders' benefits and policyholders' contract deposits and other funds and to the Insurance risk section of the Risk Review.

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 26.

The determination of fair value for financial assets and liabilities is generally based on quoted market prices or broker/dealer quotations. If quoted prices are not readily available, then fair values are derived from 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. If such quoted prices are not available, then fair values are estimated on the basis of information from external pricing providers or internal pricing models (for example, discounted cash flow models or other recognized valuation techniques).

Consolidated financial statements *continued*

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 rates.

Fair values of debt instruments issued by the Zurich Insurance Group are estimated using discounted cash flow models based on 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 the 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 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 ensure that proper processes and controls are in place to guarantee that the price quality meets 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 26 for further information on the fair value of financial assets and liabilities.

d) Impairment of assets

Assets are subject to regular impairment reviews under the relevant IFRS standard.

A financial asset is considered impaired if there is objective evidence of impairment as a result of 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 judgment 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 perpetual 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 General Insurance intangible assets 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 Global Life business distribution agreements, the recoverable amount is determined based on projected cash flows and discount rates consistent with the data used for actuarial valuations and embedded value calculations.

The recoverable amount of the intangible assets with an indefinite 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 the recoverable amount calculations consider the base rates, comprise of the U.S. Dollar, Euro and British pound swap rates for the respective mature markets. These base rates are further adjusted for equity risk premium and appropriate beta to derive the discount rates. Emerging market discount rates are based on the U.S. Dollar discount rate taking into account inflation differential expectations. Input factors to the discount rates are based on observable market data.

In addition to the range of discount rates the table below sets out the perpetual nominal growth rates beyond the planning period which 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 % 2011	Range of discount rates in % 2010	**Perpetual nominal growth rate in % 2011**	Perpetual nominal growth rate in % 2010
Western Europe	4.8–10.3	1.3–8.0	0.0–2.5	0.0–5.0
Turkey	9.6–16.0	8.4–15.1	6.0	6.0
Brazil	9.8–11.5	7.3–10.5	2.0	3.5
Farmers	8.3	6.4	0.0	2.0

For the 2011 goodwill impairment testing, the applied discount rate of 7.9 percent for the General Insurance segment represents a weighted rate based on the underlying business operation profit (BOP) by region. The perpetual growth rate was assumed to be zero.

Sensitivity tests were performed where deemed appropriate and typically comprised of an analysis for a decrease in cash flows of up to 25 percent, a decrease in the perpetual growth rate of up to 1.5 percentage points and an increase in the discount rate subject to the specific country risk premium. No impairments were identified on this basis.

See notes 3, 6, 15, 17 and 18 for further information on impairment of assets.

Consolidated financial statements *continued*

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 future cash flows expected to be generated from such assets 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, is 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. The utilization of deferred tax assets arising from unused tax losses or tax credits depends on the generation of sufficient taxable profits before the unused tax losses or tax credits expire. As of each balance sheet date, management evaluates the recoverability of deferred tax assets and if it is considered probable, that all or a portion of the deferred tax asset will not be utilized, then a valuation allowance is recognized.

See note 20 for further information on deferred taxes.

h) Employee benefits
The Zurich Insurance Group provides defined benefit 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 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 23 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, until 2010, 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 24 for further information on share-based compensation and cash incentives plans.

5. Acquisitions and divestments

Transactions in 2011

Acquisitions

On October 5, 2011 the Zurich Insurance Group completed the acquisition of a 51.0 percent participation in a holding company, which owned the life insurance, pension and general insurance operations of Banco Santander S.A. (Santander) in Brazil and Argentina. Between November 2, 2011 and November 4, 2011 the holding company completed the acquisition of a 100 percent participation in the life insurance, pension and general insurance operations of Santander in Chile, Mexico and Uruguay with the Zurich Insurance Group's ultimate ownership of 51.0 percent. The Zurich Insurance Group obtained control over the acquired entities through its majority of voting rights in the holding company's board of directors and as shareholder, which allows the Zurich Insurance Group to direct the relevant activities of the insurance operations. As part of the transaction, the Zurich Insurance Group entered into long-term strategic distribution arrangements with Santander in Latin America. This transaction is in line with the Zurich Insurance Group's emerging market strategy in both Global Life and General Insurance, and significantly expands the Zurich Insurance Group's presence in Latin America.

The initial consideration paid by the Zurich Insurance Group amounted to approximately USD 1.2 billion, subject to final purchase price and other adjustments. The Zurich Insurance Group and Santander also entered into loan agreements with several of the acquired companies, whereby total funds of USD 0.5 billion where provided to the insurance operations, split in line with the participation rights between the Zurich Insurance Group and Santander. In addition to the initial consideration, both an earn-out component based on the future profitability under the distribution agreements and a protection mechanism for the Zurich Insurance Group's initial consideration, which is based on a similar future profitability criteria, have been agreed. Under the earn-out arrangement, payments are scheduled to be made after every five year period starting January 1, 2011 until December 31, 2035 by the Zurich Insurance Group, subject to the achievement of the profitability criteria. The earn-out payments are scheduled to increase over the 25 year period up to a cumulative maximum total amount of USD 1.6 billion, based on December 31, 2011 foreign exchange rates. The fair value of the earn-out component is still being assessed and is therefore not reflected in the Consolidated financial statements as of December 31, 2011.

Given the size and the timing of the transaction the Zurich Insurance Group is still in the process of completing the initial purchase accounting. As of December 31, 2011 total assets of the acquired insurance operations amount to USD 15.6 billion and total liabilities amount to USD 13.2 billion. The 49.0 percent interest owned by Santander of USD 1.1 billion is recorded as non-controlling interests. These preliminary numbers will be allocated to individual balance sheet line items in a subsequent period. The assets and liabilities of the acquired holding company are already included in the respective line items. The financial result for the period since acquisition is not included in the Zurich Insurance Group's consolidated income statement for the year ended December 31, 2011.

Based on a preliminary assessment the table below shows key financial information for the companies acquired.

Consolidated financial statements *continued*

Preliminary financial information

Table 5

Amounts in USD millions	Global Life	General Insurance	Total	Group's share net of non-controlling interests
Gross written premium since acquisition[1]	378	118	496	253
Gross written premium for 12 months[1]	2,326	677	3,003	1,532
Net income after taxes since acquisition[1]	n/a	n/a	73	37
Net income after taxes for 12 months[1]	n/a	n/a	372	190
Purchase price paid prior to purchase price adjustments and earn-out amounts[2]	n/a	n/a	n/a	1,156
Estimated total tangible net assets as of acquisition date[3]	n/a	n/a	1,400	714
Estimated total intangible assets as of acquisition date[4]	n/a	n/a	1,375	701

[1] Based on local GAAP information, as IFRS information is not yet available. The information is deemed to be a reasonable approximation but excludes the amortization of identified intangible assets and PVFP which have yet to be determined in accordance with IFRS requirements.
[2] Net of acquired debt of USD 510 million at 100 percent.
[3] Based on a preliminary assessment, excluding debt of USD 510 million. Final numbers are subject to change.
[4] Prior to accounting for the earn-out component of USD 1.6 billion on a gross undiscounted basis.

A provisional fair value of the acquired identifiable intangible assets, primarily the value of the distribution agreements and the present value of future profits, is not yet available. The value of the distribution agreement will be reported on a 100 percent basis and is estimated to represent a significant portion of the purchase price paid.

Acquisition related costs of USD 24 million are included in other administrative expenses for the year ended December 31, 2011, and have been excluded from BOP.

Significant intercompany transactions between the newly acquired companies and the Zurich Insurance Group between the date of acquisition and December 31, 2011 were:

- The newly acquired holding company granted a short term loan of USD 86 million to the Zurich Insurance Group;
- The Zurich Insurance Group granted a long term loan of USD 246 million to one of the newly acquired entities.

On September 30, 2011, the Zurich Insurance Group completed the acquisition of 100 percent of Malaysian Assurance Alliance Berhad (MAA), a composite insurer based in Malaysia, together with 100 percent of four related services companies. The acquisition of MAA is aligned with the Zurich Insurance Group's emerging-market strategy of expanding the Zurich Insurance Group's presence in the Asia-Pacific region. The total preliminary purchase price of USD 135 million included an initial consideration of USD 108 million and an anticipated purchase price adjustment amounting to USD 27 million. Of the initial consideration, USD 56 million was paid in cash on completion, USD 30 million was placed into escrow and USD 22 million was retained by the Zurich Insurance Group. The amount in escrow and the retention are to be held for a period of two years. The fair value of net tangible assets acquired amounted to USD 113 million and identifiable intangible assets, net of deferred tax, amounted to USD 19 million which mainly consisted of the PVFP from insurance contracts. Residual goodwill amounted to USD 3 million. In addition, the Zurich Insurance Group has injected approximately USD 135 million of capital into MAA since the completion of the acquisition to meet regulatory capital requirements.

On July 12, 2011, as part of its preparations for local regulatory changes, the Zurich Insurance Group completed the acquisition of 75.0 percent of 2Plan Group Limited, an independent financial advice firm based in the UK. The total purchase price for the acquisition amounted to zero. The remaining 25.0 percent shareholding continues to be held by members of the founder management team who have options to sell their shareholding to the Zurich Insurance Group at a price contingent upon the achievement of future profit targets by 2Plan Group Limited. Based on the preliminary initial purchase accounting the tangible net assets acquired amounted to negative USD 5 million and identifiable intangible assets, net of deferred tax, amounted to USD 1 million consisting of software and capitalized recruitment director fees. Goodwill amounted to USD 4 million and reflects the future value from the Zurich Insurance Group's improved independent financial advisor proposition and technology offering in the UK.

Divestments

On January 12, 2012, the Zurich Insurance Group sold all of its shares in La Boliviana Ciacruz de Seguros y Reaseguros S.A. and Zurich Boliviana de Seguros Personales S.A. based in Bolivia, general and life insurance companies. As of

December 31, 2011 the operations were classified as held for sale and the resulting loss on divestment of businesses amounted to USD 13 million.

On June 30, 2011, the Zurich Insurance Group sold all of its shares in Lonsec Limited, including three wholly owned subsidiaries, a research and broking company based in Australia, in an effort to focus on its core business lines, recording a pre-tax gain on disposal in aggregate of USD 10 million. On July 1, 2011, the Zurich Insurance Group entered into business outsourcing agreements for which a pre-tax gain of USD 9 million was realized. Total cash and net assets divested in 2011 were USD 8 million and USD 8 million, respectively. The total consideration received in 2011, net of immaterial transaction costs, amounted to USD 28 million.

Transactions in 2010

Acquisitions

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. Total acquisition costs amounted to less than USD 1 million. PT Zurich Topas Life has been included in the Zurich Insurance Group's Consolidated financial statements as of January 1, 2011.

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. Following a preliminary purchase price adjustment the total purchase price reduced to USD 33 million. Based on immaterial net assets acquired the residual goodwill amounted to USD 33 million and represents expected growth opportunities in the region.

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 shareholding 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 for a consideration of USD 32 million in cash with option rights to increase its shareholding 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 call options on the shares of ZICSA, 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 lost control from an accounting perspective in CaixaSabadell Vida, S.A. de Seguros y Reaseguros and CaixaSabadell Compagnia d'Assegurances Generals, S.A. as of 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). The Zurich Insurance Group derecognized the assets and liabilities at their carrying amount and 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 was recorded within net gain on divestments of businesses in 2010. Following approval by the relevant regulatory authorities, the transaction was closed on February 28, 2011. Unnim paid a cash consideration of USD 393 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.

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 derecognized the assets and liabilities at their carrying amount and recorded a net loss of USD 16 million within net gain/(loss) on divestments of businesses. During 2010, the Zurich Insurance Group also 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.

Consolidated financial statements *continued*

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	
	2011	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	68	56	10	7	78	63
Equity securities	1,820	1,676	(5,184)	8,482	(3,365)	10,158
Debt securities	5,696	5,548	1,158	1,500	6,854	7,048
Real estate held for investment	859	791	(33)	216	825	1,007
Mortgage loans	392	386	(8)	(4)	384	382
Other loans	917	866	202	(1)	1,119	865
Investments in associates and joint ventures	12	17	(45)	(35)	(33)	(18)
Derivative financial instruments[1]	–	–	927	(365)	927	(365)
Investment result, gross	9,763	9,340	(2,973)	9,801	6,790	19,141
Investment expenses	(864)	(758)	–	–	(864)	(758)
Investment result, net	**8,899**	**8,582**	**(2,973)**	**9,801**	**5,926**	**18,383**

[1] Net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD (13) million and USD 10 million for the years ended December 31, 2011 and 2010, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 203 million and USD 201 million for the years ended December 31, 2011 and 2010, 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	
	2011	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	65	55	1	(1)	66	54
Equity securities	330	341	320	300	651	641
Debt securities	5,386	5,266	923	1,230	6,309	6,496
Real estate held for investment	531	466	46	28	576	494
Mortgage loans	392	386	(8)	(4)	384	382
Other loans	680	716	202	54	881	770
Investments in associates and joint ventures	12	17	(45)	(35)	(33)	(18)
Derivative financial instruments[1]	–	–	889	(304)	889	(304)
Investment result, gross for Group investments	7,396	7,247	2,328	1,268	9,724	8,515
Investment expenses for Group investments	(253)	(226)	–	–	(253)	(226)
Investment result, net for Group investments	**7,142**	**7,021**	**2,328**	**1,268**	**9,470**	**8,289**

[1] Net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD (13) million and USD 10 million for the years ended December 31, 2011 and 2010, respectively.

For the years ended December 31, 2011 and 2010, respectively, impairment charges on Group investments included in net capital gains/(losses) amounted to USD 330 million and USD 649 million, including USD 5 million and USD 55 million, respectively, for impairment charges on mortgage loans, other loans and investments in associates and joint ventures.

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	
	2011	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	3	2	9	8	12	9
Equity securities	1,490	1,335	(5,505)	8,182	(4,015)	9,516
Debt securities	309	282	236	270	545	552
Real estate held for investment	328	325	(79)	188	249	513
Other loans	237	150	–	(55)	237	95
Derivative financial instruments	–	–	38	(60)	38	(60)
Investment result, gross for unit-linked contracts	2,367	2,093	(5,302)	8,533	(2,934)	10,626
Investment expenses for unit-linked contracts	(610)	(532)	–	–	(610)	(532)
Investment result, net unit-linked contracts	**1,757**	**1,561**	**(5,302)**	**8,533**	**(3,544)**	**10,093**

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	
	2011	2010	**2011**	2010	**2011**	2010
Securities at fair value through profit or loss:	(5,480)	8,470	777	643	(4,703)	9,113
Net capital gains/(losses) on Group investments	25	288	541	373	566	661
of which:						
Trading securities	*5*	29	*5*	4	*10*	33
Securities designated at fair value through profit or loss	*20*	258	*537*	369	*557*	628
Net capital gains/(losses) for unit-linked contracts	(5,505)	8,182	236	270	(5,269)	8,452
Available-for-sale securities:	295	13	382	817	677	830
Realized capital gains on Group investments	723	633	1,278	1,468	2,001	2,101
Realized capital losses on Group investments	(158)	(124)	(841)	(514)	(999)	(638)
Impairments on Group investments	(270)	(497)	(55)	(137)	(325)	(634)
Held-to-maturity securities[1]	–	–	–	40	–	40
Total net capital gains/(losses) and impairments	**(5,184)**	**8,482**	**1,158**	**1,500**	**(4,026)**	**9,982**

[1] 2010 gains arise entirely from the reversal of impairments.

Consolidated financial statements *continued*

Details of total investments by category

Table 6.3a

as of December 31	Total investments			
	2011		2010	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	9,863	3.3	11,102	3.6
Equity securities:				
Fair value through profit or loss	83,116	27.8	89,639	29.4
of which:				
Trading securities	*438*	*0.1*	*416*	*0.1*
Securities designated at fair value through profit or loss	*82,678*	*27.7*	*89,223*	*29.3*
Available-for-sale[1]	8,284	2.8	10,161	3.3
Total equity securities	91,399	30.6	99,800	32.7
Debt securities:				
Fair value through profit or loss	19,845	6.6	16,245	5.3
of which:				
Trading securities	*50*	*0.0*	*43*	*0.0*
Securities designated at fair value through profit or loss	*19,795*	*6.6*	*16,202*	*5.3*
Available-for-sale	129,085	43.2	127,938	42.0
Held-to-maturity	5,535	1.9	5,129	1.7
Total debt securities	154,464	51.7	149,312	49.0
Real estate held for investment	12,365	4.1	12,355	4.1
Mortgage loans	9,649	3.2	10,032	3.3
Other loans	20,852	7.0	21,919	7.2
Investments in associates and joint ventures	161	0.1	188	0.1
Holdings in related companies[2]	–	0.0	86	0.0
Total investments	**298,754**	**100.0**	**304,794**	**100.0**

[1] As of December 31, 2011 and 2010 this includes the Zurich Insurance Group's investment of 12.5 percent and 20 percent, respectively, in New China Life Insurance Company Ltd., over which the Zurich Insurance Group has no significant influence.
[2] Holding in related companies comprises preferred stock from ZCMI Treasury.

Details of Group investments by category

Table 6.3b

as of December 31	Group investments			
	2011		2010	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	8,583	4.4	9,559	4.9
Equity securities:				
Fair value through profit or loss	3,253	1.7	3,874	2.0
of which:				
Trading securities	*438*	*0.2*	*416*	*0.2*
Securities designated at fair value through profit or loss	*2,816*	*1.5*	3,458	1.8
Available-for-sale[1]	8,284	4.3	10,161	5.2
Total equity securities	11,537	5.9	14,035	7.1
Debt securities:				
Fair value through profit or loss	8,020	4.1	6,869	3.5
of which:				
Trading securities	*50*	*0.0*	*43*	*0.0*
Securities designated at fair value through profit or loss	*7,971*	*4.1*	*6,826*	*3.5*
Available-for-sale	129,085	66.5	127,938	65.0
Held-to-maturity	5,535	2.9	5,129	2.6
Total debt securities	142,639	73.5	139,936	71.1
Real estate held for investment	8,468	4.4	8,274	4.2
Mortgage loans	9,649	5.0	10,032	5.1
Other loans	13,113	6.8	14,737	7.5
Investments in associates and joint ventures	161	0.1	188	0.1
Holdings in related companies[2]	–	0.0	86	0.0
Total Group investments	**194,151**	**100.0**	**196,846**	**100.0**

[1] As of December 31, 2011 and 2010 this includes the Zurich Insurance Group's investment of 12.5 percent and 20 percent, respectively, in New China Life Insurance Company Ltd., over which the Zurich Insurance Group has no significant influence.
[2] Holding in related companies comprises preferred stock from ZCMI Treasury

Cash and investments with a carrying value of USD 6,227 million and USD 5,176 million were deposited on behalf of regulatory authorities as of December 31, 2011 and 2010, respectively.

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

As of December 31, 2011 and 2010, investments included USD 6,298 million and USD 5,873 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Liabilities for cash collateral received for securities lending comprised USD 159 million and USD 485 million as of December 31, 2011 and 2010, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 6,474 million and USD 5,663 million as of December 31, 2011 and 2010, 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, 2011 and 2010, respectively, debt securities with a carrying value of USD 1,807 million and USD 3,383 million have been sold to financial institutions under short-term sale and repurchase agreements. These securities continue to be recognized as investments in the Zurich Insurance Group's consolidated balance sheets. Obligations to repurchase these securities amounted to USD 1,794 million and USD 3,330 million as of December 31, 2011 and 2010, respectively.

The Zurich Insurance Group retains the rights to the risks and benefits of ownership of loaned securities and securities under short-term sale and repurchase agreements. These risks and benefits include changes in market values and income earned.

Consolidated financial statements *continued*

Details of investments held for unit-linked contracts

Table 6.3c

as of December 31	Investments for unit-linked contracts			
	2011		2010	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	1,280	1.2	1,544	1.4
Equity securities	79,862	76.3	85,765	79.5
Debt securities	11,825	11.3	9,376	8.7
Real estate	3,898	3.7	4,081	3.8
Other loans	7,739	7.4	7,182	6.7
Total investments for unit-linked contracts	**104,603**	**100.0**	**107,947**	**100.0**

Investments held under unit-linked investments contracts are classified as designated at fair value through profit or loss.

Accrued interest on unit-linked investments included in accrued investment income amounted to USD 303 million and USD 247 million as of December 31, 2011 and December 31, 2010, respectively.

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	
	2011	2010	2011	2010	2011	2010
Debt securities:						
< 1 year	680	131	10,850	8,829	4,486	1,859
1 to 5 years	2,225	1,915	40,987	41,406	4,894	4,910
5 to 10 years	613	1,097	30,177	27,697	3,761	3,180
> 10 years	2,017	1,986	26,661	25,923	5,632	5,014
Subtotal	5,535	5,129	108,674	103,855	18,773	14,963
Mortgage and asset-backed securities:						
< 1 year	–	–	866	575	41	17
1 to 5 years	–	–	6,417	7,933	365	295
5 to 10 years	–	–	3,361	4,843	252	325
> 10 years	–	–	9,765	10,733	414	645
Subtotal	–	–	20,410	24,084	1,072	1,282
Total	**5,535**	**5,129**	**129,085**	**127,938**	**19,845**	**16,245**

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	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Equity securities								
Common stock	4,441	4,532	1,490	2,202	(579)	(446)	5,351	6,288
Unit trusts	2,775	3,730	309	341	(309)	(339)	2,775	3,731
Non-redeemable preferred stock	159	141	8	7	(8)	(7)	158	141
Total equity securities	**7,374**	**8,403**	**1,806**	**2,551**	**(896)**	**(793)**	**8,284**	**10,161**
Debt securities								
Swiss federal and cantonal governments	3,104	3,082	511	262	–	(9)	3,615	3,335
United Kingdom government	7,035	7,850	736	197	(3)	(22)	7,768	8,026
United States government	8,498	7,092	549	231	(42)	(104)	9,005	7,220
Other governments and supra-nationals	34,350	33,226	1,553	923	(1,303)	(855)	34,600	33,294
Corporate securities	52,407	50,786	3,720	2,934	(2,460)	(1,763)	53,667	51,957
Mortgage and asset-backed securities	19,713	23,617	939	865	(242)	(398)	20,410	24,084
Redeemable preferred stocks	37	23	1	–	(19)	–	19	24
Total debt securities	**125,145**	**125,677**	**8,008**	**5,412**	**(4,069)**	**(3,150)**	**129,085**	**127,938**

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

Fair value through profit or loss securities

Table 6.6

as of December 31	Group investments				Investments for unit-linked products		Total investments	
		2011		2010	**2011**	2010	**2011**	2010
	USD millions	**% of total**	USD millions	% of total	**USD millions**	USD millions	**USD millions**	USD millions
Equity securities:								
Common stock	2,539	22.5	2,849	26.5	38,176	45,188	40,715	48,036
of which: common stock portfolios backing participating with profit policyholder contracts	*420*	*3.7*	*516*	*4.8*	–	–	*420*	*516*
Unit trusts	711	6.3	1,024	9.5	41,575	40,486	42,286	41,510
Non-redeemable preferred stock	3	0.0	2	0.0	111	91	114	93
Total equity securities	**3,253**	**28.9**	**3,874**	**36.1**	**79,862**	**85,765**	**83,116**	**89,639**
Debt securities:								
Debt securities	7,163	63.5	5,851	54.5	11,610	9,111	18,773	14,963
Mortgage and asset-backed securities	857	7.6	1,017	9.5	214	265	1,072	1,282
Total debt securities	**8,020**	**71.1**	**6,869**	**63.9**	**11,825**	**9,376**	**19,845**	**16,245**
Total	**11,274**	**100.0**	**10,743**	**100.0**	**91,687**	**95,141**	**102,961**	**105,884**

Consolidated financial statements *continued*

Held-to-maturity debt securities

Table 6.7

as of December 31	2011		2010	
	USD millions	**% of total**	USD millions	% of total
Swiss federal and cantonal governments	1,804	32.6	1,813	35.3
United States government	1,839	33.2	1,576	30.7
Other governments and supra-nationals	1,148	20.7	803	15.7
Corporate securities	743	13.4	937	18.3
Total held-to-maturity debt securities	**5,535**	**100.0**	**5,129**	**100.0**

Real estate held for investment (total investments)

Table 6.8

in USD millions	Total	
	2011	2010
As of January 1	12,355	11,686
Additions and improvements	267	340
Acquisitions	115	–
Disposals	(396)	(190)
Market value revaluation	40	261
Transfer from assets held for own use	116	77
Transfer to assets held for sale	–	(12)
Foreign currency translation effects	(133)	193
As of December 31	**12,365**	**12,355**

Real estate held for investment consists of investments in commercial, residential and mixed-use properties primarily located in Switzerland, Germany and the UK.

Investments in associates and joint ventures

Table 6.9

in USD millions, as of December 31	Carrying value		Share in profit		Ownership interest	
	2011	2010	**2011**	2010	**2011**	2010
Associates:						
DKN Financial Group Limited[1]	–	33	1	2	–	30.51%
Seven Investment Management Limited	19	17	2	1	49.00%	49.00%
Other	16	15	1	7	–	–
Joint ventures:						
MCIS Zurich Insurance Berhad	41	36	4	3	40.00%	40.00%
Other	3	8	1	1	–	–
SPEs:[2]						
Euclid Office, L.P.	29	28	2	2	99.00%	99.00%
Dallas Tower, L.P.	13	12	1	1	99.00%	99.00%
Other	39	38	–	1	–	–
Total	**161**	**188**	**12**	**17**	**–**	**–**

[1] Disposed of in October 2011.
[2] 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	
	2011	2010
Equity securities: available-for-sale	910	1,758
Debt securities: available-for-sale	3,941	2,262
Other	295	76
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(1,349)	(662)
Life deferred acquisition costs	(97)	(154)
Deferred income taxes	(834)	(869)
Non-controlling interests	(12)	(17)
Total[1]	**2,854**	**2,394**

[1] Net unrealized gains/(losses) include net gains arising on cash flow hedges of USD 232 million and USD 56 million as of December 31, 2011 and 2010, respectively. In 2011 the Zurich Insurance Group applied the cash flow hedge methodology to hedge the foreign currency risk exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge the interest rate exposure with changes in the fair value being recorded through the income statement.

Consolidated financial statements *continued*

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. Financial information 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, 2011 and 2010, 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	2011						2010		
	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	650	407	3,150	4,207	304	(12)	2,956	183	(81)
Swaptions	539	3,113	4,360	8,012	560	(43)	6,618	214	(30)
Exchange traded									
Futures	197	–	–	197	–	–	101	–	–
Total interest rate contracts	**1,387**	**3,520**	**7,510**	**12,416**	**864**	**(56)**	**9,674**	**397**	**(111)**
Equity contracts:									
OTC									
Swaps	36	–	–	36	–	(1)	304	–	(24)
Puts	1,928	441	1,650	4,019	253	(264)	4,543	189	(225)
Calls	699	388	–	1,087	–	(34)	1,874	–	(41)
Exchange traded									
Puts	44	–	–	44	4	–	74	3	–
Calls	22	–	–	22	–	(1)	58	1	–
Futures	511	–	–	511	–	(8)	290	–	(4)
Total equity contracts	**3,239**	**829**	**1,650**	**5,718**	**257**	**(306)**	**7,143**	**194**	**(295)**
Foreign exchange contracts:									
OTC									
Cross Currency Swaps	–	423	–	423	–	(28)	425	–	(26)
Options	789	–	–	789	–	(11)	–	–	–
Forwards	15,134	–	–	15,134	127	(114)	14,733	362	(450)
Total foreign exchange contracts	**15,923**	**423**	**–**	**16,346**	**127**	**(154)**	**15,158**	**362**	**(476)**
Credit contracts:									
OTC									
Credit Default Swaps	130	30	–	160	–	(1)	432	2	–
Total credit contracts	**130**	**30**	**–**	**160**	**–**	**(1)**	**432**	**2**	**–**
Other contracts:									
OTC									
Puts	–	–	523	523	–	(52)	833	–	(27)
Swaps	–	–	69	69	–	(9)	66	–	(5)
Total other contracts	**–**	**–**	**591**	**591**	**–**	**(61)**	**899**	**–**	**(33)**
Total Group derivative financial instruments	20,678	4,802	9,752	35,232	1,249	(578)	33,307	955	(915)
Total unit-linked derivative financial instruments	662	1,158	66	1,886	65	(37)	2,353	104	(3)
Total	**21,340**	**5,960**	**9,818**	**37,118**	**1,315**	**(615)**	**35,660**	**1,059**	**(918)**

Consolidated financial statements *continued*

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 and swaptions.

In terms of notional amounts, the major change compared with December 31, 2010 related to additional long receiver swaptions entered to protect one of the Zurich Insurance Group's large life insurance books against falling interest rates and interest rate swaps related to a closed book of variable annuities products within the U.S. life business.

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. Total return swaps and exchange traded options relate to the dynamic hedging strategy that has been put in place to reduce the volatility associated with a closed book of variable annuities products within its U.S. life business.

Almost 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 to manage balance sheet mismatches.

In 2011 the Zurich Insurance Group decided to hedge the purchase price of a large acquisition. As of December 31, 2011 there were still USD 789 million in notional term of foreign exchange options outstanding.

The notional amounts of foreign exchange forwards increased by USD 401 million between December 31, 2010 and December 31, 2011, as a result of market movements.

Credit contracts

The decrease in notional for 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 as well as 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 2011, there were two full surrenders compared with five surrenders in 2010. In 2011 the net gain on surrender amounted to USD 1 million. The fair value of the derivative liability recognized in respect of the SVOs, included in written put options, was USD 52 million and USD 25 million as of December 31, 2011 and 2010, respectively. The notional SVO derived value was USD 523 million and USD 831 million as of December 31, 2011 and 2010, respectively, representing the total loss before 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						2011			2010
	Maturity by notional amount			Notional	Positive	Negative	Notional	Positive	Negative
	< 1 year	1 to 5 years	> 5 years	principal amounts	fair values	fair values	principal amounts	fair values	fair values
Fair value hedges:									
Cross currency interest rate swaps	–	1,518	–	1,518	269	–	1,540	258	–
Currency swaps	–	1	69	69	–	(38)	69	–	(37)
Total fair value hedges	**–**	**1,519**	**69**	**1,588**	**269**	**(38)**	**1,609**	**258**	**(37)**
Cash flow hedges:									
Options on interest rate swaps	–	901	2,229	3,130	414	–	3,855	331	–
Currency swaps	–	1,768	–	1,768	75	(9)	1,768	68	(7)
Interest rate swaps	37	91	75	203	11	–	302	6	–
Total cash flow hedges	**37**	**2,761**	**2,304**	**5,102**	**501**	**(9)**	**5,925**	**406**	**(7)**

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 and U.S. dollar - 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 21), was entered into at the issuance of the debt instrument in 2005 and will end on June 15, 2015.

A fair value hedge relationship on 20 percent of the EUR 1 billion 4.5 percent senior debt due for repayment in 2014 issued by Zurich Finance (USA), Inc. (see note 21), was entered into on January 1, 2007 and will end on the 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 21), was entered into on April 8, 2010 and will end on the 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	2011	2010
Gains/(losses)		
on hedging instruments[1]	(6)	(52)
on hedged item attributable to the hedged risk	–	44

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

Consolidated financial statements *continued*

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 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 other comprehensive income. Subsequently the gains or losses will be recycled to income between the years ended December 31, 2012 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 other 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 the 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, 2011 the following cash flow hedge relationships were in place (see note 21):

- 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 net gains deferred in other comprehensive income on derivatives designated as cash flow hedges were USD 245 million and USD 74 million before tax for the years ended December 31, 2011 and 2010, respectively.

The portion recognized in income was a loss of USD 53 million and USD 134 million before tax for the years ended December 31, 2011 and 2010, respectively, as an offset to the foreign currency revaluation on the underlying hedged debt.

A loss of USD 13 million and a gain of USD 10 million for the years ended December 31, 2011 and 2010, respectively, was recognized in net capital gains/(losses) and impairments due to ineffectiveness of a hedge 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	
	12/31/11	12/31/10	**12/31/11**	12/31/10	**12/31/11**	12/31/10
Reserves for losses and loss adjustment expenses	67,525	68,107	(12,401)	(12,093)	55,124	56,014
Reserves for unearned premiums	16,567	16,081	(2,332)	(2,185)	14,235	13,895
Future life policyholders' benefits	79,314	79,315	(2,572)	(2,423)	76,742	76,891
Policyholders' contract deposits and other funds	18,251	17,430	(2,181)	(2,246)	16,070	15,184
Reserves for unit-linked contracts	59,154	61,786	–	–	59,154	61,786
Total reserves for insurance contracts[1]	**240,811**	**242,719**	**(19,486)**	**(18,949)**	**221,325**	**223,770**

[1] The total reserves for insurance contracts ceded are gross of allowance for uncollected amounts of USD 125 million and USD 132 million as of December 31, 2011 and December 31, 2010, respectively.

Development of reserves for losses and loss adjustment expenses

Table 8.2

in USD millions	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1	68,107	68,126	(12,093)	(12,182)	56,014	55,944
Losses and loss adjustment expenses incurred:						
Current year	28,497	28,929	(4,755)	(3,930)	23,742	24,999
Prior years	(1,650)	(1,831)	347	452	(1,302)	(1,378)
Total incurred	26,847	27,098	(4,408)	(3,478)	22,439	23,620
Losses and loss adjustment expenses paid:						
Current year	(10,777)	(11,573)	959	1,049	(9,817)	(10,524)
Prior years	(16,133)	(15,167)	3,041	2,451	(13,092)	(12,716)
Total paid	(26,910)	(26,740)	4,000	3,500	(22,909)	(23,240)
Acquisitions/(divestments) and transfers[1]	154	(18)	(5)	6	149	(12)
Foreign currency translation effects	(674)	(359)	106	61	(568)	(298)
As of December 31	**67,525**	**68,107**	**(12,401)**	**(12,093)**	**55,124**	**56,014**

[1] The 2011 net movement mainly included reserves for losses and loss adjustments expenses acquired with MAA and Compagnie Libanaise d'Assurances SAL of USD 170 million, partly offset by USD (21) million due to the reclassification to held for sale of the Zurich Insurance Group's operations in Bolivia (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 decrease of USD 890 million in total net reserves includes USD 1,302 million of favorable reserve development emerging from reserves established in prior years. Gross of reinsurance, the favorable development was USD 1,650 million. This favorable development was primarily attributable to the General Insurance business and breaks down into many individual movements by market-facing business, country, line of business, and accident year.

In Global Corporate, favorable development of USD 402 million was primarily driven by Europe and North America. In Europe, general liability and property contributed the most while in North America, the change in prior year estimates came from many lines of business with the exception of workers compensation.

Consolidated financial statements *continued*

North America Commercial favorable development of USD 458 million arose mostly from medical malpractice, general liability, directors and officers, errors and omissions, direct markets and surety business.

Favorable development in Europe of USD 186 million resulted primarily from favorable experience in Switzerland of USD 365 million, mostly in motor, while most other countries reported small favourable amounts. On the other hand, Germany reported USD 242 million of adverse development, driven by the medical and professional liability lines of business.

The remaining favorable development emerged from Group Reinsurance, International Markets, and the assumed business from the Farmers Exchanges.

Development of insurance losses, net

Table 8.3

in USD millions, as of December 31	2002	2003	2004	2005	2006	2007	2008	2009	2010	**2011**
Gross reserves for losses and loss adjustment expenses	45,306	51,068	57,765	60,425	64,535	67,890	65,218	68,126	68,107	67,525
Reinsurance recoverable	(14,940)	(14,055)	(14,279)	(14,231)	(13,722)	(13,179)	(12,232)	(12,182)	(12,093)	(12,401)
Initial net reserves for losses and loss adjustment expenses	30,366	37,013	43,486	46,194	50,814	54,712	52,986	55,944	56,014	55,124
Cumulative paid as of December 31:										
One year later	*(8,923)*	*(9,930)*	*(9,464)*	*(11,423)*	*(11,237)*	*(12,551)*	*(13,047)*	*(12,716)*	(13,092)	
Two years later	*(14,472)*	*(15,550)*	*(16,273)*	*(18,044)*	*(18,362)*	*(19,660)*	*(19,909)*	*(19,821)*		
Three years later	*(18,001)*	*(20,407)*	*(21,234)*	*(23,077)*	*(23,421)*	*(24,428)*	*(24,693)*			
Four years later	*(21,390)*	*(23,941)*	*(24,945)*	*(26,850)*	*(26,839)*	*(27,735)*				
Five years later	*(23,814)*	*(26,616)*	*(27,798)*	*(29,425)*	*(29,224)*					
Six years later	*(25,799)*	*(28,668)*	*(29,810)*	*(31,189)*						
Seven years later	*(27,442)*	*(30,245)*	*(31,148)*							
Eight years later	*(28,672)*	*(31,274)*								
Nine years later	*(29,482)*									
Cumulative incurred as of December 31:										
One year later	*1,873*	*1,964*	*141*	*(218)*	*(1,219)*	*(1,271)*	*(1,059)*	*(1,378)*	(1,302)	
Two years later	*4,105*	*3,400*	*1,520*	*(367)*	*(2,171)*	*(2,152)*	*(2,350)*	*(2,565)*		
Three years later	*5,752*	*4,991*	*1,839*	*(897)*	*(2,686)*	*(2,844)*	*(3,048)*			
Four years later	*7,325*	*5,241*	*1,808*	*(945)*	*(3,003)*	*(3,533)*				
Five years later	*7,514*	*5,457*	*2,118*	*(1,044)*	*(3,438)*					
Six years later	*7,916*	*6,004*	*2,194*	*(1,184)*						
Seven years later	*8,585*	*6,094*	*2,254*							
Eight years later	*8,719*	*6,223*								
Nine years later	*8,819*									
Net reserves re-estimated as of December 31:										
One year later	*32,239*	*38,977*	*43,627*	*45,976*	*49,594*	*53,441*	*51,927*	*54,565*	54,711	
Two years later	*34,471*	*40,413*	*45,006*	*45,827*	*48,642*	*52,559*	*50,637*	*53,379*		
Three years later	*36,118*	*42,004*	*45,325*	*45,297*	*48,127*	*51,868*	*49,939*			
Four years later	*37,691*	*42,254*	*45,294*	*45,249*	*47,811*	*51,179*				
Five years later	*37,880*	*42,470*	*45,604*	*45,150*	*47,376*					
Six years later	*38,282*	*43,017*	*45,680*	*45,010*						
Seven years later	*38,951*	*43,107*	*45,740*							
Eight years later	*39,085*	*43,236*								
Nine years later	*39,185*									
Cumulative (deficiency)/ redundancy of net reserves	(8,819)	(6,223)	(2,254)	1,184	3,438	3,533	3,048	2,565	1,302	
Cumulative (deficiency)/ redundancy as a percentage of initial net reserves	(29.0%)	(16.8%)	(5.2%)	2.6%	6.8%	6.5%	5.8%	4.6%	2.3%	
Gross reserves re-estimated as of December 31, 2011	57,201	59,768	61,192	59,867	60,585	63,437	61,281	64,538	66,458	
Cumulative (deficiency)/ redundancy of gross reserves	(11,895)	(8,700)	(3,427)	558	3,950	4,453	3,937	3,588	1,650	
Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves	(26.3%)	(17.0%)	(5.9%)	0.9%	6.1%	6.6%	6.0%	5.3%	2.4%	

Consolidated financial statements *continued*

Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Zurich Insurance Group established in 2002 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. Similarly, the cumulative incurred losses section details the sum of the cumulative paid amounts shown in the triangle above and the changes in loss reserves since the end of each financial year. The net 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, 2011. 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		2011		2010
	Gross	**Net**	Gross	Net
Asbestos				
As of January 1	3,408	2,863	3,604	2,998
Losses and loss adjustment expenses incurred	42	79	35	34
Losses and loss adjustment expenses paid	(159)	(125)	(138)	(90)
Foreign currency translation effects	(8)	(8)	(94)	(79)
As of December 31	**3,283**	**2,810**	**3,408**	**2,863**
Environmental				
As of January 1	290	223	280	242
Losses and loss adjustment expenses incurred	31	20	61	20
Losses and loss adjustment expenses paid	(41)	(38)	(51)	(38)
Foreign currency translation effects	1	–	1	–
As of December 31	**282**	**206**	**290**	**223**

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 125 million gross and USD 53 million net, and by USD 196 million gross and USD 135 million net during the years ended December 31, 2011 and 2010, respectively. In both years the decrease was mainly driven by the re-estimation of the ultimate liability for asbestos as well as the normal payout of claims. During 2011, this was partially offset by the increase in UK gross and net reserves following a court ruling in Scotland and Northern Ireland related to the impact of pleural plaques losses. In addition, the 2010 decrease included the impact of the strengthening of the U.S. dollar, as a significant portion of the Zurich Insurance Group's reserves is held in British pounds.

Reserves for environmental claims decreased by USD 8 million gross and USD 17 million net, and increased by USD 10 million gross but decreased by USD 19 million net during the years ended December 31, 2011 and 2010, respectively. For the year ended December 31, 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.

Table 8.5

Development of future life policyholders' benefits

in USD millions	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1	79,315	79,271	(2,423)	(2,199)	76,891	77,072
Premiums	8,736	9,447	(511)	(534)	8,225	8,913
Claims	(10,463)	(10,138)	426	378	(10,036)	(9,760)
Fee income and other expenses	(2,072)	(1,689)	87	118	(1,985)	(1,571)
Interest and bonuses credited to policyholders	3,257	2,650	(161)	(70)	3,096	2,580
Change in assumptions	423	234	(23)	(64)	400	170
Acquisitions/transfers[1]	1,546	1,296	5	(95)	1,550	1,201
(Decreases)/increases recorded in other comprehensive income	252	(8)	–	–	252	(8)
Foreign currency translation effects	(1,679)	(1,749)	29	43	(1,651)	(1,706)
As of December 31	**79,314**	**79,315**	**(2,572)**	**(2,423)**	**76,742**	**76,891**

[1] The 2011 net movement mainly included reclassifications of USD 212 million transferred from other liabilities to future life policyholders' benefits, partly offset by USD (27) million transferred to liabilities for investment contracts (see note 1). Additionally, it included the future life policyholders' benefits acquired with MAA (see note 5) of USD 1,361 million. The 2010 net movement included USD 2,730 million related to the transfer to other reserves categories 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 net impact of changes in assumptions on net future life policyholders' benefits was USD 400 million and USD 170 million for the years ended December 31, 2011 and 2010, respectively. The net changes include the following significant movements:

Table 8.6

Effect of changes in assumptions for future life policyholders' benefits

in USD millions, for the year ended December 31	**2011**	2010
Interest rates	451	216
Longevity	(1)	1
Changes in modelling	(4)	(10)
Expense	(12)	4
Lapses	(29)	6
Morbidity	(38)	(7)
Investment return	(63)	(27)
Other	96	(13)
Net impact of changes in assumptions	**400**	**170**

Consolidated financial statements *continued*

Policyholders' contract deposits and other funds gross

Table 8.7

in USD millions, as of December 31	2011	2010
Annuities	1,320	1,293
Universal life and other contracts	11,577	11,164
Policyholder dividends	5,355	4,973
Total	**18,251**	**17,430**

Development of policyholders' contract deposits and other funds

Table 8.8

in USD millions	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1	17,430	18,857	(2,246)	(2,457)	15,184	16,400
Premiums	1,395	2,028	(60)	(90)	1,335	1,938
Claims	(1,421)	(1,861)	195	261	(1,225)	(1,601)
Fee income and other expenses	(344)	(360)	7	14	(337)	(347)
Interest and bonuses credited to policyholders	628	993	(79)	(82)	549	912
Changes in assumptions	91	(3)	–	–	91	(3)
Acquisitions/transfers[1]	266	(1,847)	–	100	266	(1,746)
(Decrease)/increase recorded in other comprehensive income	477	(185)	–	–	477	(185)
Foreign currency translation effects	(271)	(191)	2	7	(268)	(184)
As of December 31	**18,251**	**17,430**	**(2,181)**	**(2,246)**	**16,070**	**15,184**

[1] The 2011 net movement mainly included an increase for policyholders' contract deposits and other funds acquired with MAA (see note 5) of USD 268 million. The 2010 net movement included decreases for the transfer to other reserves categories of USD (1,733) and a decrease of USD (7) million related to loss of control in Caixa Sabadell (see note 5).

Development of reserves for unit-linked contracts

Table 8.9

in USD millions	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1	61,786	58,204	–	–	61,786	58,204
Premiums	9,263	8,377	–	(3)	9,263	8,374
Claims	(8,384)	(6,629)	–	4	(8,384)	(6,625)
Fee income and other expenses	(1,689)	(1,496)	–	(1)	(1,689)	(1,497)
Interest and bonuses credited/(charged) to policyholders	(1,274)	5,395	–	–	(1,274)	5,395
Acquisitions/transfers[1]	80	(143)	–	–	80	(143)
Foreign currency translation effects	(628)	(1,922)	–	–	(628)	(1,922)
As of December 31	**59,154**	**61,786**	**–**	**–**	**59,154**	**61,786**

[1] The 2011 net movement mainly included a reclassification of USD 119 million from liabilities for investment contracts to reserves for unit-linked contracts, partly offset by a reclassification of USD (259) million to liabilities for investment contracts (see note 1). Additionally, it included the reserves for unit-linked insurance contracts acquired with MAA (see note 5) of USD 223 million. The 2010 net movement included USD (12) million related to the transfer to other reserves categories and USD (160) million related to loss of control in Caixa Sabadell (see note 5).

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

Table 9.1

Liabilities for investment contracts

in USD millions, as of December 31	**2011**	2010
Liabilities related to unit-linked investment contracts	44,220	44,941
Liabilities related to investment contracts (amortized cost)	834	592
Liabilities related to investment contracts with DPF	5,607	5,134
Total	**50,661**	**50,667**

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.

Table 9.2

Development of liabilities for investment contracts

in USD millions	**2011**	2010
As of January 1	50,667	46,124
Premiums	7,934	7,963
Claims	(5,762)	(5,478)
Fee income and other expenses	(573)	(692)
Interest and bonuses charged/(credited) to policyholders	(1,431)	5,267
Transfers[1]	543	(892)
Increase/(decrease) recorded in other comprehensive income	(6)	(35)
Foreign currency translation effects	(712)	(1,590)
As of December 31	**50,661**	**50,667**

[1] The 2011 movement mainly included USD 259 million transferred from reserves for unit-linked contracts to liabilities for investment contracts, USD 246 million transferred from other liabilities to liabilities for investment contracts, USD 137 million transferred from non-technical provisions and USD 27 million transferred from future life policyholders' benefits to liabilities for investment contracts, partly offset by USD (119) million transferred from liabilities for investment contracts to reserves for unit-linked contracts (see note 1). The 2010 movement mainly included a decrease of net USD (884) million related to the net transfer to and from reserves for insurance contracts.

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.

Table 10

Development of the equity component relating to contracts with DPF

in USD millions	**2011**	2010
As of January 1	2,168	1,837
Net unrealized (losses)/gains on investments	(676)	(39)
Current period profit	5	194
Foreign currency translation effects	(9)	176
As of December 31	**1,488**	**2,168**

Consolidated financial statements *continued*

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	
	2011	2010	**2011**	2010	**2011**	2010
Losses and loss adjustment expenses	26,847	27,098	(4,408)	(3,478)	22,439	23,620
Life insurance death and other benefits	11,366	11,004	(462)	(456)	10,904	10,548
Change in future life policyholders' benefits	(107)	488	(182)	(172)	(289)	316
Total insurance benefits and losses	**38,106**	**38,591**	**(5,052)**	**(4,106)**	**33,054**	**34,484**

Policyholder dividends and participation in profits

Table 11.2

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
Change in policyholders' contract deposits and other funds	643	809	–	(4)	643	805
Change in reserves for unit-linked products	(1,826)	5,287	–	–	(1,826)	5,287
Change in liabilities for investment contracts – unit-linked	(1,801)	4,830	–	–	(1,801)	4,830
Change in liabilities for investment contracts – other	224	215	–	–	224	215
Change in unit-linked liabilities related to UK capital gains tax	75	(337)	–	–	75	(337)
Total policyholder dividends and participation in profits	**(2,685)**	**10,805**	**–**	**(4)**	**(2,685)**	**10,801**

Underwriting and policy acquisition costs

Table 11.3

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
Amortization of deferred acquisition costs	5,365	5,365	(506)	(439)	4,860	4,926
Amortization of deferred origination costs	135	119	–	–	135	119
Commissions and other underwriting and acquisition expenses[1]	3,809	3,865	(280)	(261)	3,529	3,604
Total underwriting and policy acquisition costs	**9,309**	**9,349**	**(786)**	**(700)**	**8,523**	**8,649**

[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	
	2011	2010	**2011**	2010	**2011**	2010
Change in reserves for unearned premiums	**932**	**(1,019)**	**(181)**	**(215)**	**751**	**(1,234)**

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	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
As of January 1	3,426	3,339	12,686	12,276	169	531	16,281	16,146
Acquisition costs deferred	3,100	2,939	1,909	1,780	714	815	5,723	5,533
Amortization	(2,991)	(2,877)	(1,339)	(873)	(530)	(1,176)	(4,860)	(4,926)
Amortization charged/ (credited) to other comprehensive income	–	–	(21)	(74)	–	–	(21)	(74)
Transfers	–	(1)	–	–	–	–	–	(1)
Foreign currency translation effects	(35)	26	(224)	(424)	–	(1)	(259)	(398)
As of December 31	**3,500**	**3,426**	**13,011**	**12,686**	**353**	**169**	**16,864**	**16,281**

[1] Net of eliminations from inter-segment transactions.

Development of deferred origination costs

Table 12.2

in USD millions	**2011**	2010
As of January 1	866	856
Origination costs deferred	101	142
Amortization	(135)	(119)
Foreign currency translation effects	(9)	(13)
As of December 31	**824**	**866**

As of December 31, 2011 and 2010, deferred policy acquisition costs and deferred origination costs related to non-controlling interests were USD 347 million and USD 355 million, respectively.

13. Administrative and other operating expenses

Administrative and other operating expenses

Table 13

in USD millions, for the years ended December 31	**2011**	2010
Wages and salaries	3,258	3,023
Other employee benefits	561	406
Amortization and impairments of intangible assets	804	874
Depreciation and impairments of property and equipment	190	204
Rent, leasing and maintenance	449	385
Marketing costs	209	201
Life renewal commission	386	348
Asset and other non-income taxes	50	38
IT costs	800	684
Litigation and settlement costs	76	645
Restructuring costs	222	111
Foreign currency translation	(108)	(164)
Other	1,275	1,146
Total	**8,170**	**7,900**

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.

Consolidated financial statements *continued*

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	2011	2010
Farmers management fees and other related revenues	**2,767**	**2,778**

Farmers Group, Inc. and its subsidiaries (FGI) through its attorney-in-fact (AIF) relationship with the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., 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 18,149 million and USD 18,311 million for the years ended December 31, 2011 and 2010, respectively.

15. 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, 2010. There were no impairment charges in 2011.

The table below shows the maturity schedule of collateralized loans as of December 31, 2011 and 2010, respectively.

Maturity schedule - collateralized loans

Table 15

in USD millions, as of December 31	2011		2010	
	Carrying value[1]	**Undiscounted cash flow[2]**	Carrying value[1]	Undiscounted cash flow[2]
< 1 year	113	113	391	389
1 to 2 years	–	–	145	145
2 to 3 years	42	42	9	9
3 to 4 years	12	12	52	51
4 to 5 years	2	2	12	12
> 5 years	54	54	133	133
Total	**223**	**223**	**743**	**739**

[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.

16. Property and equipment

Property and equipment – current period

Table 16.1

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, 2011	352	1,201	467	578	828	3,427
Less: accumulated depreciation/impairments	(1)	(424)	(360)	(484)	(471)	(1,740)
Net carrying value as of January 1, 2011	352	777	106	95	357	1,687
Additions and improvements	–	7	51	48	93	199
Acquisitions[1]	18	63	3	–	1	86
Disposals	(5)	(10)	(1)	(1)	(33)	(50)
Transfers	(37)	(86)	33	(2)	(47)	(139)
Depreciation and impairments	(1)	(33)	(40)	(45)	(71)	(190)
Foreign currency translation effects	(3)	(8)	(2)	(1)	(1)	(15)
Net carrying value as of December 31, 2011	**325**	**709**	**151**	**94**	**299**	**1,578**
Plus: accumulated depreciation/impairments	–	348	419	461	395	1,624
Gross carrying value as of December 31, 2011	**325**	**1,057**	**571**	**555**	**694**	**3,202**

[1] Related to the acquisition of Malaysian Assurance Alliance Bhd (see note 5).

Property and equipment – prior period

Table 16.2

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, 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**

The fire insurance value of the Zurich Insurance Group's own-use property and equipment totaled USD 2,916 million and USD 3,342 million as of December 31, 2011 and 2010, respectively.

Consolidated financial statements *continued*

17. Goodwill and other intangible assets

Intangible assets – current period

Table 17.1

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2011	2,241	2,528	2,607	1,025	3,959	195	12,556
Less: accumulated amortization/impairments	(136)	(1,622)	(326)	–	(2,339)	(76)	(4,500)
Net carrying value as of January 1, 2011	2,104	906	2,281	1,025	1,620	119	8,056
Additions and transfers	51	24	74	–	560	1	710
Divestments and transfers[1]	(12)	–	–	–	–	–	(12)
Amortization	–	(114)	(127)	–	(430)	(14)	(685)
Amortization charged to other comprehensive income	–	82	–	–	–	–	82
Impairments	–	–	–	–	(119)	–	(119)
Foreign currency translation effects	(84)	(19)	(79)	–	(15)	(2)	(200)
Net carrying value as of December 31, 2011	**2,060**	**879**	**2,149**	**1,025**	**1,615**	**104**	**7,832**
Plus: accumulated amortization/impairments	126	1,640	430	–	2,587	86	4,870
Gross carrying value as of December 31, 2011	**2,186**	**2,519**	**2,579**	**1,025**	**4,203**	**190**	**12,703**

[1] The reduction in Goodwill is mainly a result of a revised earn-out calculation within one of the Zurich Insurance Group's Spanish General Insurance operations and the classifications as held for sale of the Zurich Insurance Group's operation in Bolivia.

As of December 31, 2011, the intangible assets related to non-controlling interests were USD 127 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 979 million for distribution agreements and USD 5 million for software. Caja de Ahorros y Monte de Piedad de Navarra (Caja Navarra), one of the distribution partners, merged all its assets and liabilities into Banca Civica in June 2011. The Zurich Insurance Group is continuing to review and assess, as details emerge, the effects of this merger and of related industry developments on the determination of its control over this investment and its distribution agreement amounting to USD 141 million gross of non-controlling interests.

Additions to goodwill of USD 33 million related to the acquisition of Compagnie Libanaise d'Assurances SAL. The acquisition of several smaller companies generated a further USD 12 million of goodwill and earn-out payments to Deutsche Bank Group for the acquisition of Zurich Life and Pensions S.p.A. Italy (formerly DWS Vita S.p.A.) increased goodwill by USD 6 million.

Extensions of existing distribution agreements resulted in net additions of USD 28 million in the Life insurance operations in Italy, USD 14 million in the General insurance operations in Turkey and USD 5 million in the Life insurance operations in Spain. New distribution agreements to gain access to the mass consumer market in Brazil added a further USD 28 million.

The decision to decentralize its Direct insurance efforts in the Zurich Insurance Group's General Insurance operations in Switzerland and Spain was the main driver of software impairments, as it resulted in USD 85 million charge for software which will no longer be used.

Intangible assets by segment – current period

Table 17.2

in USD millions, as of December 31, 2011	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	827	–	527	–	548	83	1,985
Global Life	413	879	1,622	–	372	21	3,308
Farmers	819	–	–	1,025	409	–	2,254
Other Operating Businesses	–	–	–	–	286	–	286
Net carrying value as of December 31, 2011	**2,060**	**879**	**2,149**	**1,025**	**1,615**	**104**	**7,832**

Intangible assets – prior period

Table 17.3

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 a 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 distributions agreements represent the impact of loss of control in Ciaxa Sabadell (see note5).

Consolidated financial statements *continued*

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 General Insurance operations in Russia.

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

Table 17.4

Intangible assets by segment – prior period

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**

18. Receivables and other assets

Receivables and other assets

Table 18

in USD millions, as of December 31	2011	2010
Financial assets		
Derivative assets	2,085	1,722
Receivables from policyholders	2,957	3,042
Receivables from insurance companies, agents and intermediaries	5,495	5,343
Receivables arising from ceded reinsurance	1,155	1,195
Reverse repurchase agreements	814	1,171
Amounts due from investment brokers	321	394
Other receivables	1,881	2,413
Allowance for impairments[1]	(320)	(323)
Other assets	134	132
Non-financial assets		
Current tax receivables	781	716
Accrued premiums	684	748
Prepaid expenses	274	229
Prepaid insurance benefits	432	441
Other assets	404	385
Assets related to Santander insurance operations in Latin America[2]	15,611	–
Total receivables and other assets	**32,705**	**17,609**

[1] Allowance for impairments includes USD 81 million and USD 101 million as of December 31, 2011 and 2010, respectively, for receivables arising from ceded reinsurance.
[2] See note 5.

Receivables are carried at notional amounts, and are generally settled within one year. The notional and fair value amounts do not vary significantly.

19. Other liabilities

Other liabilities

Table 19.1

in USD millions, as of December 31	2011	2010
Other financial liabilities		
Derivative liabilities	662	962
Amounts due to reinsurers, agents and other insurance companies	2,076	2,041
Amounts due to investment brokers	1,363	977
Amounts due to life policyholders	639	668
Liabilities for cash collateral received for securities lending	159	485
Liabilities for defined benefit plans	2,905	1,779
Other liabilities for employee benefit plans	109	112
Other liabilities	6,410	6,549
Other non-financial liabilities		
Current tax payables	778	850
Restructuring provisions	254	155
Premium prepayments and other advances	869	957
Other liabilities	1,099	1,114
Liabilities related to Santander insurance operations in Latin America[1]	13,191	–
Total other liabilities	**30,513**	**16,650**

[1] See note 5.

Consolidated financial statements *continued*

Table 19.2 shows the maturity schedule of other financial liabilities as of December 31, 2011 and 2010, respectively.

Maturity schedule – other financial liabilities[1]

Table 19.2

in USD millions, as of December 31	2011		2010	
	Carrying value[2]	**Undiscounted cash flow[3]**	Carrying value[2]	Undiscounted cash flow[3]
< 1 year	10,238	10,230	9,942	9,953
1 to 2 years	157	168	590	618
2 to 3 years	40	42	56	67
3 to 4 years	83	96	44	53
4 to 5 years	3	4	31	39
> 5 years	894	1,102	1,131	2,185
Total	**11,416**	**11,644**	**11,795**	**12,916**

[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.

Restructuring provisions

Table 19.3

in USD millions	2011	2010
As of January 1	155	119
Provisions made during the period	223	111
Provisions used during the period	(112)	(77)
Provisions reversed during the period	(2)	–
Foreign currency translation effects	(11)	2
As of December 31	**254**	**155**

During the year ended December 31, 2011 the Zurich Insurance Group initiated several restructuring programs, recording a total charge to income of USD 176 million. A further USD 45 million was recorded in respect of restructuring programs initiated in prior years. The main restructuring program impacted several European countries within the General Insurance operations with estimated costs of USD 112 million. In addition, the Zurich Insurance Group recorded USD 85 million of software impairments as outlined in note 17.

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 business. 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 amounted to USD 20 million. In addition, the Zurich Insurance Group recorded USD 114 million of software impairments as outlined in note 17.

20. Income taxes

Income tax expense – current/deferred split

Table 20.1

in USD millions, for the years ended December 31	2011	2010
Current	1,106	1,161
Deferred	(122)	229
Total income tax expense	**984**	**1,390**

Income tax expense – policyholder/shareholder attribution

Table 20.2

in USD millions, for the years ended December 31	2011	2010
Total income tax expense/(benefit) attributable to policyholders	(242)	462
Total income tax expense/(benefit) attributable to shareholders	1,226	928
Total income tax expense	**984**	**1,390**

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 20.3

in USD millions, for the years ended December 31	Rate	2011	Rate	2010
Net income before income taxes		4,945		5,062
Less: income tax (expense)/benefit attributable to policyholders		242		(462)
Net income before income taxes attributable to shareholders		5,186		4,600
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,141	22.0%	1,012
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*225*		44
Tax exempt and lower taxed income		*(82)*		(116)
Non-deductible expenses		*75*		63
Tax losses previously unrecognized or no longer recognized		*(4)*		11
Prior year adjustments and other		*(129)*		(86)
Actual income tax expense attributable to shareholders	23.6%	1,226	20.2%	928
Plus: income tax expense/(benefit) attributable to policyholders		(242)		462
Actual income tax expense	**19.9%**	**984**	**27.5%**	**1,390**

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.

Consolidated financial statements *continued*

Table 20.4

Current tax receivables and payables

in USD millions, as of December 31	2011	2010
Current tax receivables	781	716
Current tax payables	(778)	(850)
Net current tax receivables/(payables)	**2**	**(134)**

Table 20.5

Deferred tax assets and liabilities

in USD millions, as of December 31	2011	2010
Deferred tax assets	2,060	2,059
Deferred tax liabilities	(4,049)	(4,552)
Net deferred tax liabilities	**(1,990)**	**(2,493)**

Table 20.6

Development of net deferred tax liabilities

in USD millions	2011	2010
As of January 1	(2,493)	(1,994)
Net change recognized in the income statement	122	(229)
Net change recognized in equity	376	(485)
Net changes due to acquisitions/(divestments)	(19)	198
Foreign currency translation effects	24	17
As of December 31	**(1,990)**	**(2,493)**

The cumulative amount of deferred tax credited to shareholders' equity, net of foreign currency translation effects, amounted to USD 397 million and USD 21 million for the years ended December 31, 2011 and 2010, respectively.

The net deferred tax liabilities related to non-controlling interests amounted to USD 324 million and USD 348 million for the years ended December 31, 2011 and 2010, respectively.

Table 20.7

Deferred taxes – policyholder/ shareholder attribution

in USD millions, as of December 31	2011	2010
Net deferred tax assets/(liabilities) attributable to policyholders	(154)	(473)
Net deferred tax assets/(liabilities) attributable to shareholders	(1,836)	(2,019)
Net deferred tax liabilities	**(1,990)**	**(2,493)**

Deferred tax assets/(liabilities) analysis by source

Table 20.8

in USD millions, as of December 31	2011		2010	
	Assets	**Liabilities**	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	24	(655)	26	(618)
Depreciable and amortizable assets	30	(73)	33	(38)
Life policyholders' benefits and deposits[1]	96	(49)	34	(13)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	410	(513)	327	(447)
Accruals & deferred income	177	(2)	207	(4)
Reserves for losses and loss adjustment expenses	457	(4)	511	(2)
Reserves for unearned premiums	729	(61)	720	–
Pensions and other employee benefits	541	–	381	–
Other assets/liabilities	748	(296)	719	(207)
Tax loss carryforwards	558	–	452	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,771	(1,653)	3,410	(1,329)
Valuation allowance	(58)	–	(21)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,713	(1,653)	3,389	(1,329)
Deferred tax assets	**2,060**		**2,059**	
Deferred acquisition and origination costs	76	(2,592)	90	(2,784)
Depreciable and amortizable assets	143	(1,877)	147	(2,023)
Life policyholders' benefits and deposits[1]	955	(777)	808	(722)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	303	(1,075)	249	(1,019)
Accruals & deferred income	109	(169)	120	(167)
Reserves for losses and loss adjustment expenses	109	(268)	109	(335)
Reserves for unearned premiums	39	(64)	34	(96)
Deferred front-end fees	634	–	717	–
Pensions and other employee benefits	457	(37)	344	(43)
Other assets/liabilities	866	(1,071)	829	(972)
Tax loss carryforwards	203	–	173	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,893	(7,930)	3,620	(8,161)
Valuation allowance	(12)	–	(11)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,881	(7,930)	3,609	(8,161)
Deferred tax liabilities		**(4,049)**		**(4,552)**
Net deferred tax liabilities		**(1,990)**		**(2,493)**

[1] Includes reserves for unit-linked contracts.

The Zurich Insurance Group's deferred tax assets and liabilities are recorded by its tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate. The first part of 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, 2011 and 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 3 billion and UDS 4 billion, respectively. 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.

Consolidated financial statements *continued*

Tax losses carryforwards and tax credits

Table 20.9

in USD millions, as of December 31	**2011**	2010
For which deferred tax assets have been recognized, expiring		
< 5 years	170	358
5 to 20 years	1,208	1,360
> 20 years or with no time limitation	986	151
Subtotal	2,364	1,869
For which deferred tax assets have not been recognized, expiring		
5 to 20 years	169	180
> 20 years or with no time limitation	168	105
Subtotal	337	285
Total	**2,701**	**2,154**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 30.4 percent and 32.4 percent for the years 2011 and 2010, 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, 2011, are recoverable.

21. Senior and subordinated debt

Senior and subordinated debt

Table 21.1

in USD millions, as of December 31		2011	2010
Senior debt			
Zurich Capital Markets	Various debt instruments payable within 1 year	–	400
Zurich Finance (USA), Inc.	3.50% CHF 300 million notes, due November 2011[1, 7]	–	322
	4.50% EUR 1 billion notes, due September 2014[2, 7, 8]	1,312	1,353
	4.875% EUR 800 million notes, due April 2012[1, 7]	1,037	1,069
	6.50% EUR 600 million notes, due October 2015[3, 7]	776	801
	Euro Commercial Paper Notes	400	–
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million notes, due September 2013[6, 7, 8]	764	765
Zurich Insurance Company Ltd	3.875% CHF 1 billion notes, due July 2011[7]	–	1,071
	3.75% CHF 500 million notes, due September 2013[7]	531	531
	2.25% CHF 500 million notes, due July 2017[7]	529	–
	2.875% CHF 250 million notes, due July 2021[7]	262	–
	2.375% CHF 525 million notes, due November 2018[7]	553	–
	Various debt instruments payable within 1 year with Zurich Financial Services Ltd[4]	524	656
Zurich Santander Insurance America S.L.	7.5% EUR 182 million loan, due December 2035	236	–
Other	Various debt instruments payable within 1 year[4]	–	1
	Various debt instruments payable in more than 1 year	141	141
Senior debt		7,065	7,110
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes[7]	184	190
	7.5% EUR 425 million notes, due July 2039[7]	547	564
	4.25% CHF 700 million perpetual notes[7]	735	736
	4.625% CHF 500 million perpetual notes[6]	525	–
	5.41% CHF 1,700 long-term perpetual loan, with Zurich Financial Services Ltd[4]	–	1,820
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes[5, 7]	690	692
Zurich Finance (USA), Inc.	5.75% EUR 500 million notes, due October 2023[1, 7]	641	661
	4.5% EUR 500 million notes, due June 2025[6, 7, 8]	688	696
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065	674	673
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 million Trust Preferred Securities, due May 2062	250	250
ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067	497	497
Other	Various debt instruments payable in more than 1 year	44	44
Subordinated debt		5,476	6,824
Total senior and subordinated debt		**12,541**	**13,934**

[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 percent of the total) and fair value hedge (20 percent of the total).
[3] The bond is part of a qualifying cash flow hedge (100 percent).
[4] Loans with subsidiaries of Zurich Financial Services Group which are not part of 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 Insurance 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 (100 percent).
[7] Issued under Zurich Financial Services Group's Euro Medium Term Note Programme (EMTN Programme).
[8] In 2011 the Zurich Insurance Group applied the cash flow hedge methodology to hedge the foreign currency exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge the interest rate exposure with changes in the fair value being recorded through the income statement.

None of the debt instruments listed above was in default as of December 31, 2011 and 2010, respectively.

Consolidated financial statements *continued*

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 18 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 to USD 7,065 million as of December 31, 2011, from USD 7,110 million as of December 31, 2010. This was primarily due to the repayments of USD 400 million commercial paper notes in July, 2011 by Zurich Capital Markets, the CHF 1 billion senior notes issued by Zurich Insurance Company Ltd, which matured on July 27, 2011, the CHF 300 million senior notes issued by Zurich Finance (USA), Inc. which matured on November 23, 2011, the USD 132 million call account reduction with the Zurich Financial Services Ltd and the translation effects of the U.S. dollar against the currencies in which the senior debt principal amounts were issued.

The outflow was almost fully offset by the three senior notes issued by Zurich Insurance Company Ltd under the EMTN Programme in July and November 2011 totaling CHF 1,275 million, the new issuance by Zurich Finance (USA), Inc. of USD 400 million commercial paper notes under the Zurich Insurance Group's new Euro Commercial Paper Programme and a new long term debt of EUR 182 million which was raised in November 2011 by a 51% owned subsidiary in connection with the Zurich Insurance Group entering into a 25-year strategic distribution arrangement in Latin America.

ii) Subordinated debt

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

Subordinated debt decreased to USD 5,476 million as of December 31, 2011, from USD 6,824 million as of December 31, 2010, mainly as a result of the early repayment on April 7, 2011 by Zurich Insurance Company Ltd of the remaining CHF 1.7 billion outstanding principal loan amount of the former advanced CHF 4.0 billion intra-group subordinated loan from Zurich Financial Services Ltd and the translation effects of the U.S. dollar against the currencies in which the subordinated principal debt amounts were issued.

The outflow was partially offset by the new CHF 500 million hybrid perpetual notes issue under the EMTN Programme in March 2011 to refinance the early redemption of hybrid debt that were classified as preferred securities in shareholders' equity as of December 31, 2010.

Description and features of significant subordinated debt

Table 21.2

Description	Coupon conditions	Call/redemption date	Redemption conditions
12.00% EUR 143 million, perpetual capital 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 million notes, 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 million, perpetual 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.
4.625% CHF 500 million, perpetual notes	4.625% payable annually up to May 16, 2018 and then reset to the prevailing 7 year CHF mid swap rate plus 2.691%.	Annually on or after May 16, 2018	Redeemable in whole or in part at par plus any accrued interest.
6.625% GBP 450 million, perpetual notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest plus 2.85%.[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 million notes, 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 million notes, 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% USD 700 million Fixed/Adjustable Trust Preferred Securities (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 million 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 billion 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.
[2] Adjustable rate is equal to the greatest of (i) the 3-month LIBOR Rate; (ii) the 10-year Treasury CMT (Constant Maturity Treasury) Rate; and (iii) the 30-year Treasury CMT Rate, subject to a maximum under (ii) and (iii) of 13% for Series II.

Consolidated financial statements *continued*

Table 21.3

Maturity schedule of outstanding debt

in USD millions, as of December 31	2011		2010	
	Carrying value	Undiscounted cash flow	Carrying value	Undiscounted cash flow
< 1 year	1,961	2,557	2,450	3,110
1 to 2 years	1,305	1,823	1,080	1,701
2 to 3 years	1,324	1,811	1,297	1,848
3 to 4 years	917	1,319	1,388	1,895
4 to 5 years	–	376	919	1,372
5 to 10 years	1,345	2,838	–	1,771
> 10 years	5,689	7,625	6,801	9,610
Total	**12,541**	**18,350**	**13,934**	**21,308**

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/redemption dates, refer to table 21.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 21.3. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2011 and 2010, respectively. All debt is assumed to mature within 20 years of the balance sheet date at the latest without refinancing. Floating interest rates are assumed to remain constant as of December 31, 2011 and 2010, respectively. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Table 21.4

Interest expense on debt

in USD millions, for the years ended December 31	2011	2010
Senior debt	265	256
Subordinated debt	351	473
Total	**616**	**728**

Interest expense on debt

Interest expense on debt decreased to USD 616 million as of December 31, 2011, from USD 728 million as of December 31, 2010. The lower interest expense was mainly due to the repayment of the CHF 1.7 billion outstanding subordinated loan from Zurich Financial Services Ltd, by Zurich Insurance Company Ltd, the positive impact of early redemptions in December 2010 and the expired 3.875 % CHF 1 billion senior notes in July 2011. By contrast, the decrease of interest expense was partially offset by the issuance of new debt under the EMTN Programme and the negative impact of foreign exchange fluctuations.

Credit facilities

On October 31, 2011 the Zurich Insurance Group early refinanced its revolving credit facility of USD 3 billion, which would have expired in September 2012, by a new syndicated revolving credit facility of EUR 2.5 billion maturing in 2018 at the latest. Zurich Insurance Company Ltd and Farmers Group, Inc. are guarantors of the facility and can draw up to EUR 2.3 billion and EUR 200 million, respectively. No borrowings were outstanding under this facility as of December 31, 2011 or as of December 31, 2010 under the former facility.

In addition, the Zurich Insurance Group has access to four other revolving credit facilities totaling USD 441 million expiring in 2014. No borrowings were outstanding under these four facilities as of December 31, 2011 or 2010, respectively.

22. Shareholders' equity

Share capital

Table 22

number of shares, as of December 31	2011	2010
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, 2011 and 2010, 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, 2011 and December 31, 2010.

c) Profit sharing certificates

As of December 31, 2011 and 2010, 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.

On April 7, 2011, Zurich Insurance Company Ltd repaid an amount of CHF 1.3 billion (USD 1.3 billion) to Zurich Financial Services Ltd.

Consolidated financial statements *continued*

23. Employee benefits

Personnel and other related costs incurred for the year ended December 31, 2011 and 2010, were USD 5,868 million and USD 5,400 million, including wages and salaries of USD 4,868 million and USD 4,494 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 Zurich Insurance Group's pension and post-employment benefit plans, the Zurich Financial Services Group 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 Zurich Insurance Group's 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 479 million for 2012 compared with USD 496 million estimated in the previous year for 2011. 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, 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.

Table 23.1

Status of funded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans					Other defined post-employment benefits				
	2011	2010	2009	2008	2007	**2011**	2010	2009	2008	2007
Present value of funded obligations	(17,189)	(14,978)	(13,966)	(12,680)	(13,653)	(1)	–	(70)	(93)	(66)
Fair value of plan assets	14,902	13,791	12,622	10,879	13,285	–	–	–	–	5
Funded status	(2,287)	(1,186)	(1,344)	(1,801)	(368)	(1)	–	(70)	(92)	(61)
Unrecognized past service cost	(1)	(1)	–	(1)	–	–	–	–	–	–
Cumulative impact of asset ceiling	(3)	(3)	(15)	(7)	(62)	–	–	–	–	–
Liability – funded obligations	**(2,291)**	**(1,190)**	**(1,359)**	**(1,808)**	**(430)**	**(1)**	**–**	**(70)**	**(92)**	**(61)**

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 23.2

Status of unfunded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans					Other defined post-employment benefits				
	2011	2010	2009	2008	2007	**2011**	2010	2009	2008	2007
Present value of unfunded obligations	(289)	(260)	(230)	(210)	(207)	(301)	(295)	(205)	(183)	(208)
Unrecognized past service cost	(5)	(10)	–	–	–	(18)	(23)	(28)	(1)	(2)
Liability – unfunded obligations	**(293)**	**(270)**	**(229)**	**(209)**	**(207)**	**(319)**	**(318)**	**(234)**	**(184)**	**(210)**

Table 23.3

Status of funded and unfunded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans					Other defined post-employment benefits				
	2011	2010	2009	2008	2007	**2011**	2010	2009	2008	2007
Liability	**(2,585)**	**(1,460)**	**(1,588)**	**(2,017)**	**(637)**	**(320)**	**(319)**	**(303)**	**(277)**	**(271)**

Consolidated financial statements *continued*

Expense recognized in income

Table 23.4

in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2011	2010	**2011**	2010
Current service cost	(314)	(269)	(10)	(9)
Interest cost	(745)	(694)	(13)	(15)
Expected return on plan assets	756	722	–	–
Past service cost	(6)	(12)	5	5
Gains on curtailment or settlement	2	49	12	–
Net pension expense	**(307)**	**(205)**	**(7)**	**(19)**

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 23.5

in USD millions, as of December 31	Defined benefit pension plans	
	2011	2010
Mortgage loans	465	441
Cash and cash equivalents	193	236
Equity securities	3,233	3,903
Debt securities	10,151	8,410
Real estate	854	795
Other assets[1]	7	6
Total	**14,902**	**13,791**

[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 23.6

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2011	2010	**2011**	2010
Benefit obligation as of January 1	(15,238)	(14,196)	(296)	(275)
Current service cost	(314)	(269)	(10)	(9)
Past service cost including plan amendments	(10)	(1)	–	–
Interest cost	(745)	(694)	(13)	(15)
Actuarial gain/(loss) included in other comprehensive income	(1,894)	(598)	(4)	(4)
Employee contributions	(52)	(43)	(6)	(5)
Effect of curtailments or settlements	2	104	12	–
Benefits paid	612	539	20	20
Foreign currency translation effects	162	(81)	(5)	(7)
Benefit obligation as of December 31	**(17,478)**	**(15,238)**	**(302)**	**(296)**

Movement in fair value of plan assets – funded plans

Table 23.7

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2011	2010	**2011**	2010
Fair value of plan assets as of January 1	13,791	12,622	–	–
Expected return on plan assets	756	722	–	–
Actuarial gain/(loss) included in other comprehensive income	560	388	–	–
Employer contributions	459	532	14	15
Employee contributions	52	43	6	5
Benefits paid	(612)	(539)	(20)	(20)
Effect of curtailments or settlements	–	(56)	–	–
Foreign currency translation effects	(105)	79	–	–
Fair value of plan assets as of December 31	**14,902**	**13,791**	**–**	**–**

The actual returns on defined benefit pension plan assets for the years ended December 31, 2011 and 2010 were gains of USD 1,316 million and USD 1,110 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 23.8

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2011	2010	**2011**	2010
Liability as of January 1	(1,460)	(1,588)	(319)	(303)
Current year expense	(307)	(205)	(7)	(19)
Contributions paid	459	532	14	15
Change in liability due to asset ceiling	–	11	–	–
Actuarial gain/(loss) included in other comprehensive income	(1,333)	(210)	(4)	(4)
Foreign currency translation effects	58	(1)	(5)	(7)
Liability as of December 31	**(2,585)**	**(1,460)**	**(320)**	**(319)**

Consolidated financial statements *continued*

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 23.9

in USD millions	**2011**	2010	2009	2008	2007
Actuarial gain/(loss) as of January 1	(2,914)	(2,672)	(2,907)	(1,308)	(1,870)
Experience adjustments on plan liabilities	(190)	205	(37)	(147)	(118)
Experience adjustments on plan assets	560	388	318	(1,485)	188
Changes due to discount rate assumptions	(1,602)	(742)	(103)	223	975
Changes due to other actuarial assumptions	(105)	(65)	144	(392)	(345)
Asset ceiling recognition	–	11	(7)	51	(64)
Foreign currency translation effects	51	(39)	(80)	152	(75)
Total actuarial gain/(loss) as of December 31	**(4,200)**	**(2,914)**	**(2,672)**	**(2,907)**	**(1,308)**
Total actuarial gain/(loss) net of policyholder participation and taxes as of December 31	**(2,857)**	**(1,924)**	**(1,762)**	**(1,934)**	**(818)**

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 23.10

as of December 31	**2011**				2010			
	Switzerland	**United Kingdom**	**United States**	**Germany**	Switzerland	United Kingdom	United States	Germany
Discount rate	2.1%	5.0%	4.5%	5.4%	2.9%	5.5%	5.3%	5.3%
Inflation rate	1.6%	3.7%	2.2%	1.8%	1.9%	3.4%	2.3%	1.7%
Expected long-term rate of return on assets	2.6%	4.6%	4.7%	4.3%	3.4%	6.2%	6.4%	4.5%
Expected future salary increases	2.2%	4.2%	4.3%	3.1%	2.5%	3.9%	4.2%	3.0%
Expected future pension increases	1.1%	3.7%	0.0%	1.8%	1.4%	3.4%	0.0%	1.7%
Current average life expectancy for a 65 year old male	21.1	22.9	19.6	18.4	19.9	22.7	19.4	18.3

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.

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

Table 23.11

as of December 31	2011	2010
	U.S.	U.S.
Discount rate	5.0%	5.0%
Expected increase in long-term health cost – initial rate	7.7%	7.8%
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 effect on amounts recognized as set out in table 23.12.

Effect of a change in health care cost trends on other defined post-employment benefits

Table 23.12

	1% increase	1% decrease
Effect on total service cost and interest cost	–[1]	–[1]
Effect on benefit obligation	4	(4)

[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 127 million and USD 108 million in 2011 and 2010, respectively.

Consolidated financial statements *continued*

24. 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 that business. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 484 million and USD 417 million for the years ended December 31, 2011 and 2010, 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.

Expenses recognized in income

Table 24.1

in USD millions, as of December 31	**2011**	2010
Total option-based expenses	35	55
Total share-based expenses	141	128
Total expenses	**176**	**183**

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 252 and 274 participants in the plan as of December 31, 2011 and 2010, 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 award of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,000. The total number of participating employees in the reward share element of the plans as of December 31, 2011 and 2010 was 4,463 and 4,775 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 equivalent to CHF 3,500 per employee per annum. During 2011, 5,448 employees participated in the Employee Incentive Plan compared with 5,488 in 2010. For the years ended December 31, 2011 and 2010, 1,084 and 1,372 employees, respectively, received shares under the 2010 and 2009 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 shares and/or share options with the vesting of these share and option grants being subject to the achievement of specific financial performance goals.

With effect from 2011, share option grants were discontinued. Those option grants made in the period up to and including 2010 continue to earn out in accordance with the terms and conditions of those grants. 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.

The Zurich Insurance Group long-term incentive Plan
Participants in this Plan are granted a target number of performance shares in shares of Zurich Financial Services Ltd in April each year, such that the economic value is a defined percentage of the annual salary of each participant in the year of grant. Performance shares vest on an annual basis over the subsequent three year period, with the actual level of vesting being between 0 percent and 175 percent of the original shares granted, with an additional discretion to increase vesting to a maximum of 200 percent, depending on the performance of the Zurich Financial Services Group over the previous three calendar years. Performance metrics used to determine the level of vesting are the Zurich Financial Services Ltd's return on equity 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 three years. As of December 31, 2011 and December 31, 2010 there were 1,152 and 947 participants in the Plan, respectively.

Prior to 2011, for selected senior executives, the target granted was allocated between performance shares and share options in shares of Zurich Financial Services Ltd. Vesting of the share options is based on the same criteria as those for performance shares over the subsequent three year period, with the same potential multiple of the share options granted dependent on the achievement of the same performance metrics. Share options, once vested, may be exercised by the participant over the the period up to seven years from the date of grant. In 2010, 168 senior executives received a target grant of performance shares and share options.

c) Further information on performance share and option plans

Table 24.2

Movements in options granted under the various equity participation plans

	Number of shares under option		Weighted average exercise price (in CHF)	
	2011	2010	**2011**	2010
As of January 1	3,693,558	3,053,757	281	278
Options granted/vested	828,407	1,698,817	261	272
Options forfeited	(142,385)	(73,560)	248	265
Options exercised	(304,080)	(427,673)	206	204
Options expired during period	(806,721)	(557,783)	276	298
As of December 31	**3,268,779**	**3,693,558**	**285**	**281**
Exercisable options as of December 31	2,587,617	2,263,094	285	281

The average share price for Zurich Financial Services Ltd shares in 2011 and 2010 was CHF 212.72 and CHF 241.41 respectively.

Table 24.3

Share options exercised during the period

	Amount		Average share price in CHF	
	2011	2010	**2011**	2010
Exercise date				
January to April	255,232	199,096	260	255
May to August	26,388	125,825	229	240
September to December	22,460	102,752	208	241
Total	**304,080**	427,673	**232**	248

Consolidated financial statements *continued*

Range of exercise prices of options outstanding

Table 24.4

in CHF, as of December 31	Number of options		Weighted average contractual life in years		Weighted average remaining expected life in years	
	2011	2010	**2011**	2010	**2011**	2010
Exercise price						
100 to 200	478,212	536,850	7.0	7.0	4.3	5.3
201 to 300	1,161,398	1,404,170	7.0	7.0	4.5	4.8
301 to 400	1,629,169	1,752,538	7.1	7.1	2.3	3.3
Total	**3,268,779**	3,693,558	**7.0**	7.0	**3.4**	4.2

Options and shares granted during the period

Table 24.5

for the year ended December 31	Number		Weighted average fair value at grant date (in CHF)	
	2011	2010	**2011**	2010
Shares granted/vested during the period	537,955	407,940	244	260
Options granted/vested during the period[1]	828,407	1,698,817	–	29

[1] Number of options granted is shown as the number of shares under option granted during the period.

The shares granted during the year are the target allocations made under the 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 metrics are achieved. If the performance metrics change from the initial assumptions, the expense is adjusted.

Up to and including 2010, options granted during each year were treated in the same way. From 2011 option grants have been discontinued. Option grants made in the period up to and including 2010 continue to earn out in accordance with the terms and conditions of those grants. The fair value of options granted is estimated using the Black-Scholes option pricing model, with the assumptions shown in table 24.6.

Black-Scholes assumptions for fair value of options

Table 24.6

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

25. 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, make capital contributions or provide equity financing.

Quantifiable commitments and contingencies

Table 25.1

in USD millions, as of December 31	**2011**	2010
Commitments under investment agreements	4,037	4,100
Less funded commitments	(3,586)	(3,513)
Remaining commitments under investment agreements	451	587
Guarantees and letters of credit[1]	4,650	3,817
Future operating lease commitments	1,155	1,001
Undrawn loan commitments	35	51
Other commitments and contingent liabilities	7	88

[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 4,650 million for financial guarantees and letters of credit were outstanding as of December 31, 2011. 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.

The Zurich Insurance Group is active in numerous countries where insurance guarantee funds exist. In some jurisdictions funding is based on premiums written. In other jurisdictions the Zurich Insurance Group may be called upon to contribute to such funds in case of a failure of an other market participant. In the case of German life companies the amount of contribution is limited to 1 percent of the net underwriting reserve net of payments already made.

The Zurich Insurance Group carries certain disposal-related contingencies as it sometimes provides the acquirer of a business with certain indemnification provisions, which can vary by counterparty in scope and duration. The terms of these indemnification provisions cover ordinary contractual guarantees related to disposals and shift the potential risk of certain unquantifiable and unknown loss contingencies from the acquirer to the seller.

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 137 million and USD 184 million for the years ended December 31, 2011 and 2010, respectively.

Consolidated financial statements *continued*

Table 25.2

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

in USD millions, as of December 31	2011	2010
< 1 year	189	203
1 to 2 years	189	168
2 to 3 years	165	135
3 to 4 years	151	119
4 to 5 years	141	111
> 5 years	320	265
Total	**1,155**	1,001

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 World Trade Center event in New York. As of December 31, 2011 the Zurich Insurance Group has recorded provisions of USD 44 million, for losses in excess of USD 289 million.

Other contingent liabilities

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

The Zurich Insurance Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA- by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available as of December 31, 2011 is estimated to amount to approximately USD 131 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 estimate at the balance sheet date of the probable costs and expenses of resolving these matters, significant uncertainty regarding the ultimate cost remains. The main area of uncertainty concerns complaints related to sales advice. The key assumptions used to derive the complaint provisions 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 provisions 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 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 the acquirers.

Pledged assets

The majority of assets pledged to secure the Zurich Insurance Group's liabilities relate to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 8,147 million and USD 9,611 million as of December 31, 2011 and 2010, 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.

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.

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), 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 (collectively, the Fuller-Austin Case). In

addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd (ZIC) and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The 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. The 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. The plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he 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, and trial testimony has now concluded. Closing arguments are scheduled for February 2012.

A similar action entitled API, Inc. Asbestos Settlement Trust (API), et al. v. ZAIC, et al., was filed in March 2009 in the District Court for the Second Judicial District, County of Ramsey, Minnesota (API Case). ZAIC and two of its insurance company subsidiaries were named as defendants. The 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. As in the Fuller-Austin Case, the plaintiffs allege that API is an insured under policies issued by Home, primarily in the 1970s. The complaint seeks to hold the defendants liable for Home's policy obligations under various theories of vicarious liability tied to the recapitalization of Home, and it also alleges that the defendants are liable for damages under theories of fraudulent transfer and tortious interference with contract. The court ruled on the defendants' motions to dismiss the amended complaint, and dismissed the plaintiffs' fraudulent transfer, tortious interference with contract and consumer fraud claims against all the defendants. The motions were denied as to the remaining claims, as the court found that the plaintiffs' vicarious liability theories could not be disposed of on a motion to dismiss. Pretrial discovery has substantially concluded. Summary judgment motions were filed by both plaintiffs and defendants on July 1, 2011 and oral argument on the motions was heard on November 22, 2011. A decision is pending. If the case is not decided on summary judgment, a trial will follow. The Zurich Insurance Group maintains that the Fuller-Austin and API Cases are without merit and intends to continue to defend itself vigorously.

Zurich Financial Services (now Zurich Financial Services Ltd, ZFS) is 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, ZFS 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. On January 17, 2012, the Amsterdam Court of Appeal approved the non-U.S. settlement. Under Dutch law, only the parties jointly can appeal, and ZFS will not join in an appeal.

ZFS is a defendant 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 the plaintiff appealed. In 2008, a California appellate court reversed the trial court's ruling and reinstated the litigation. On September 9, 2009, the 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, ZFS announced that it had agreed in principle to a proposed nationwide settlement of the Fogel Case. Under the terms of the proposed settlement, a sum of USD 455 million will be made available to approximately 12.5 million policyholders who may qualify for a distribution under the settlement, with any residual amount going to the Farmers Exchanges. ZFS 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, all terms of which are subject to the court's final approval. On January 12, 2011, the parties filed a motion seeking preliminary approval of the proposed settlement. On February 3, 2011, the court granted a motion to intervene by a class member who objects to certain aspects of the proposed settlement. The hearing on the motion for preliminary approval was held on March 2, 2011, and the court granted the motion. Notices were mailed and published to class members, and a number of objections and opt-out requests were submitted.

Consolidated financial statements *continued*

On October 31, 2011, the court granted a motion by the State of Montana to intervene so it could object to certain aspects of the proposed settlement. On December 21, 2011, the court granted final approval of the settlement, and it reduced the total award of attorneys' fees, expenses, and incentive awards to approximately USD 74 million (instead of USD 90 million). A 60-day appeal period commenced following entry of the court's judgment on December 21, 2011. Notices of appeal have been filed by intervenor State of Montana and one class member.

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 proceeding could have a material impact on results of operations in the particular reporting period in which it is resolved.

26. 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 26.1a

in USD millions, as of December 31	Total fair value		Total carrying value	
	2011	2010	**2011**	2010
Cash and cash equivalents	8,583	9,559	8,583	9,559
Available-for-sale securities				
Debt securities	129,085	127,938	129,085	127,938
Equity securities	8,284	10,161	8,284	10,161
Total available-for-sale securities	137,368	138,099	137,368	138,099
Securities at FV through profit or loss				
Trading				
Debt securities	50	43	50	43
Equity securities	438	416	438	416
Designated at FV				
Debt securities	7,971	6,826	7,971	6,826
Equity securities	2,816	3,458	2,816	3,458
Total securities at FV through profit or loss	11,274	10,743	11,274	10,743
Derivative assets	2,019	1,618	2,019	1,618
Held-to-maturity debt securities	6,182	5,582	5,535	5,129
Investments in associates and joint ventures	161	186	161	188
Loans and receivables				
Mortgage loans	10,197	10,402	9,649	10,032
Other loans	14,894	15,658	13,113	14,737
Deposits made under assumed reinsurance contracts	2,703	2,817	2,711	2,837
Mortgage loans given as collateral	223	739	223	743
Receivables	12,268	13,201	12,302	13,236
Total loans and receivables	40,285	42,817	37,998	41,586
Total financial assets	**205,872**	**208,604**	**202,938**	**206,922**
Financial liabilities at FV through profit or loss				
Trading:				
Obligation to repurchase securities	(1,794)	(3,330)	(1,794)	(3,330)
Derivative liabilities	(625)	(959)	(625)	(959)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(833)	(592)	(834)	(592)
Liabilities related to investment contracts with DPF	(5,337)	(4,875)	(5,607)	(5,134)
Senior debt	(7,077)	(7,406)	(7,065)	(7,110)
Subordinated debt	(5,153)	(6,780)	(5,476)	(6,824)
Deposits received under ceded reinsurance contracts	(1,460)	(1,231)	(1,543)	(1,362)
Collateralized loans	(223)	(739)	(223)	(743)
Other financial liabilities	(1,082)	(2,136)	(1,085)	(2,139)
Total financial liabilities	**(23,583)**	**(28,047)**	**(24,252)**	**(28,193)**

Consolidated financial statements *continued*

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

Table 26.1b

in USD millions, as of December 31	Total fair value		Total carrying value	
	2011	2010	**2011**	2010
Cash and cash equivalents	1,280	1,544	1,280	1,544
Investments at FV through profit or loss				
Designated at FV				
Debt securities	11,825	9,376	11,825	9,376
Equity securities	79,862	85,765	79,862	85,765
Other loans	7,739	7,182	7,739	7,182
Total investments at FV through profit or loss	99,426	102,322	99,426	102,322
Derivative assets	65	104	65	104
Loans and receivables				
Total	**100,771**	**103,970**	**100,771**	**103,970**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	(44,220)	(44,941)	(44,220)	(44,941)
Derivative liabilities	(37)	(3)	(37)	(3)
Total	**(44,256)**	**(44,944)**	**(44,256)**	**(44,944)**

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 OTC derivatives. 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, the Zurich Insurance Group 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 in tables 26.4a and 26.4b.

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

Fair Value Hierarchy – current period

Table 26.2a

in USD millions, as of December 31, 2011	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	39,817	87,006	2,261	129,085
Equity securities	3,656	3,651	977	8,284
Total available-for-sale securities	43,473	90,657	3,239	137,368
Securities at FV through profit or loss				
Trading				
Debt securities	35	15	–	50
Equity securities	–	40	398	438
Designated at FV				
Debt securities	3,155	4,626	189	7,971
Equity securities	483	1,068	1,265	2,816
Total securities at FV through profit or loss	3,673	5,749	1,851	11,274
Derivative assets	4	1,982	33	2,019
Total	**47,149**	**98,389**	**5,123**	**150,661**
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	–	(1,794)	–	(1,794)
Derivative liabilities	(8)	(565)	(52)	(625)
Total	**(8)**	**(2,359)**	**(52)**	**(2,419)**

Fair Value Hierarchy – prior period

Table 26.2b

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)**

Consolidated financial statements *continued*

Table 26.3a

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

in USD millions	Available-for-sale securities		Securities at FV through profit or loss			Derivative assets	Derivative liabilities
			Trading	Designated at FV			
	Debt securities	Equity securities	Equity securities	Debt securities	Equity securities		
As of January 1, 2011	3,394	2,836	377	191	1,545	46	(25)
Realized gains/(losses) recognized in income[1]	26	500	6	1	23	–	–
Unrealized gains/(losses) recognized in income[1]	(12)	(61)	(1)	(10)	28	16	(27)
Unrealized gains/(losses) recognized in other comprehensive income	(14)	(277)	–	–	–	–	–
Purchases	354	630	95	16	34	–	–
Sales/redemptions/settlements	(1,539)	(1,187)	(79)	(16)	(369)	–	–
Transfers into Level 3	79	9	–	1	–	–	–
Transfers out of Level 3	(40)	(1,566)	–	–	–	(27)	–
Foreign currency translation effects	14	92	–	7	4	(1)	–
As of December 31, 2011	**2,261**	**977**	**398**	**189**	**1,265**	**33**	**(52)**

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

During the year ended December 31, 2011, the Zurich Insurance Group transferred USD 1.6 billion of equity securities from Level 3 to Level 1. The transfer arose because the investment in New China Life Insurance Company Ltd was listed on the Hong Kong Stock Exchange on December 15, 2011.

Table 26.3b

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

in USD millions	Available-for-sale securities		Securities at FV through profit or loss			Derivative assets	Derivative liabilities
			Trading	Designated at FV			
	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)	–	–
Transfers into Level 3	498	2	–	23	–	–	–
Transfers out of Level 3	(104)	–	–	(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 as 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, 2011 and 2010 under Level 3, the Zurich Insurance Group classified asset-backed securities (ABSs) amounting to USD 2.5 billion and USD 3.6 billion, respectively. These ABSs include non-agency backed securities for which the limited market activity observable during the year required the Zurich Insurance Group's external 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 rates for prepayment, recovery and default. 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 tables 26.4a and 26.4b. While tables 26.4 illustrate the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions, may differ significantly between investments, given their different terms and circumstances.

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments, under the current market conditions, and its results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of these 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 the fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

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

Table 26.4a

as of December 31, 2011	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%	(85)	–20%	90
Prepayment rates	–20%	(9)	+20%	10
Recovery rates	–20%	(1)	+20%	1
Default rates	+20%	(3)	–20%	3

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

Table 26.4b

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

As of December 31, 2011 and 2010, under Level 3 the Zurich Insurance Group also classified investments in hedge funds and private equity funds amounting to USD 1.9 billion and USD 2.2 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.

Consolidated financial statements *continued*

Unit-linked financial instruments

Fair Value Hierarchy – current period

Table 26.5a

in USD millions, as of December 31, 2011	Level 1	Level 2	Level 3	Total
Investments at FV through profit or loss				
Designated at FV				
Debt securities	5,203	6,493	129	11,825
Equity securities	39,778	35,480	4,604	79,862
Other loans	–	7,739	–	7,739
Total investments at FV through profit or loss	44,981	49,712	4,733	99,426
Derivative assets	–	64	1	65
Total	**44,981**	**49,777**	**4,734**	**99,491**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	–	(44,220)	–	(44,220)
Derivative liabilities	–	(33)	(3)	(37)
Total	**–**	**(44,253)**	**(3)**	**(44,256)**

Fair Value Hierarchy – prior period

Table 26.5b

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	–	7,182	–	7,182
Total investments at FV through profit or loss	52,065	45,464	4,793	102,322
Derivative assets	–	102	2	104
Total	**52,065**	**45,567**	**4,795**	**102,427**
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)**

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

Table 26.6a

in USD millions	Securities at FV through profit or loss	
	Designated at FV	
	Debt securities	Equity securities
As of January 1, 2011	143	4,650
Realized gains/(losses) recognized in income[1]	2	46
Unrealized gains/(losses) recognized in income[1]	–	218
Purchases	5	27
Sales/redemptions	(21)	(329)
Transfers into Level 3	–	1
Transfers out of Level 3	–	(4)
Foreign currency translation effects	–	(5)
As of December 31, 2011	**129**	**4,604**

[1] Presented as 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 26.6b

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)
Transfers into Level 3	1	–
Transfers out of Level 3	–	(19)
Foreign currency translation effects	(4)	(7)
As of December 31, 2010	**143**	**4,650**

[1] Presented as net investment result on unit-linked investments in the Consolidated income statements.

Consolidated financial statements *continued*

27. 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 (Banco Sabadell S.A.) and Latin America (Banco Santander S.A.), reflected in the consolidated income statements and consolidated balance sheets.

Table 27.1

Related party transactions included in the Consolidated financial statements

in USD millions	**2011**	2010
Consolidated income statements for the years ended December 31		
Net earned premiums and policy fees	28	12
Net investment income on Group investments	(138)	(46)
Net cap gains/(losses) and impairments on Group investments	10	(27)
Other income/(expense)	20	15
Administrative and other operating expense	(36)	2
Insurance benefits and losses, net of reinsurance	(4)	(6)
Interest expense on debt	(30)	(173)
Consolidated balance sheets as of December 31		
Total Group investments[1]	2,159	4,643
Total unit-linked investments	3,447	3,196
Accrued investment income	14	14
Receivables	9	48
Other assets	5	20
Reserves for insurance contracts	(11)	(13)
Accrued liabilities	2	(2)
Other liabilities	(245)	(70)
Debt[2]	(524)	(2,477)

[1] Includes loans and preferred securities (only 2010) of Zurich Financial Services Ltd which amounted to USD 740 million and USD 2,676 million as of December 31, 2011 and 2010, respectively.
[2] Includes debt received from Zurich Financial Services Ltd which amounted to USD 524 million and USD 2,476 million as of December 31, 2011 and 2010, respectively.

On April 25, 2008 a subordinated loan agreement was entered into between Zurich Insurance Company Ltd and Zurich Group Holding, which was assumed by Zurich Financial Services Ltd as a consequence of its merger of Zurich Group Holding. The remaining loan amounted to CHF 4.8 billion (USD 4.5 billion) and CHF 6.1 billion (USD 5.7 billion) as of December 31, 2011 and 2010, respectively (see note 22).

Table 27.2 summarizes related party transactions with key personnel reflected in the Consolidated financial statements. Key personnel includes Members of the Board of Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd and Members of the Zurich Financial Services Group Executive Committee.

Related party transactions – key personnel

Table 27.2

in USD millions, for the years ended December 31	**2011**	2010
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	33	30
Post-employment benefits	3	3
Share-based compensation	19	20
Termination benefits	–	2
Total remuneration of key personnel	**55**	55

As of December 31, 2011 and 2010 there were no loans, advances or credits outstanding from Members of the Zurich Financial Services Group Executive Committee. Outstanding loans and guarantees granted to Members of the Board of Directors amounted to USD 3 million for the year ended December 31, 2011 and USD 2 million for the year ended December 31, 2010. 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 5 million and USD 3 million for the years ended December 31, 2011 and December 31, 2010, respectively.

No provision for non-repayment has been required in 2011 and 2010 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*

28. Farmers Exchanges

Farmers Group, Inc. and its subsidiaries (FGI) 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, 2011 and 2010, FGI and other Zurich Insurance Group companies held the following surplus notes 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 28

Surplus Notes

in USD millions, as of December 31	2011	2010
6.15% surplus note, due June 2021[1]	707	–
6.15% surplus note, due June 2021[1]	140	–
6.15% surplus note, due June 2021[1]	60	–
6.15% surplus note, due December 2013[1]	–	88
6.15% certificates of contribution, due December 2013[1]	–	523
6.15% certificates of contribution, due August 2014[1]	–	296
4.65% certificates of contribution, due December 2013	150	150
Various other certificates of contribution	23	23
Total	**1,080**	**1,080**

[1] On June 30, 2011 three surplus notes totaling USD 907 million were cancelled and subsequently reissued by the Farmers Exchanges under the same terms and conditions, but maturing June 2021, and different amounts, although total amount remained unchanged.

Conditions governing payment of interest and repayment of principal are outlined in the surplus notes 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 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 expenses. 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 terminated as of December 31, 2011 and was renewed thereafter.

Farmers Exchanges' share of ceded premiums amounted to USD 1 billion for both the years ended December 31, 2011 and 2010. Ceded incurred losses and loss adjustment expenses totaled USD 709 million and USD 648 million for the years ended December 31, 2011 and 2010, respectively. Farmers Exchanges' share of the total experience commission income was USD 268 million and USD 315 million for the years ended December 31, 2011 and 2010, respectively.

All Lines Quota Share reinsurance agreement

Certain of the Farmers Exchanges participate in an All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Re Co and ZIC which has been amended over the years, with the participation ratio at 35 percent as of December 31, 2009. 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. 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 assumed 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 expenses 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 from 25.0 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 a maximum of 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.

Effective December 31, 2011, the All Lines agreement was amended subsequent to which Farmers Re Co and ZIC entered into a 20.0 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, which amended the 12.0 percent All Lines agreement in effect since December 31, 2010, Farmers Re Co and ZIC assume a 4.0 percent and 16.0 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 1.2 billion. As a result, Farmers Re Co and ZIC are subject to a maximum annual catastrophe loss of USD 48.0 million and USD 192 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 continue to receive a provisional ceding commission of 26.7 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 527 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 as from December 31, 2011. In addition, Farmers Re Co and ZIC remitted USD 141 million of reinsurance commissions to the Farmers Exchanges for acquisition expenses due to the increased participation in the All Lines agreement.

Based on the results for 2011, ceded premiums earned and commissions were USD 1,984 million and USD 635 million, respectively, and recoveries totaled USD 1,396 million, for the year ended December 31, 2011. Ceded premiums earned and commissions were USD 4,574 million and USD 1,418 million, respectively, and recoveries totaled USD 3,059 million, for the year ended December 31, 2010.

Consolidated financial statements *continued*

29. 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 is the segment through which the Zurich Insurance Group provides a variety of motor, home and commercial products and services for individuals, as well as small and large businesses.

Global Life pursues a strategy of providing market-leading unit-linked, protection and corporate propositions 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 the Farmers Re business, which includes only reinsurance assumed from the Farmers Exchanges. Farmers Exchanges are prominent writers of personal lines and small commercial lines business in the U.S.

For the purpose of discussing financial performance the Zurich Insurance Group considers General Insurance, Global Life and Farmers to be its core business segments.

Other Operating Businesses predominantly consist of the Zurich Insurance Group´s Headquarter and Holding and Financing activities. Certain alternative investment positions not allocated to business operating segments are included within Holding and Financing.

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. Non-core businesses are mainly situated in the U.S., Bermuda and the United Kingdom.

As of January 1, 2011, the Zurich Insurance Group implemented changes in the way it manages two of the three core segments on a secondary level.

The General Insurance segment is managed based on market-facing businesses, including:

- Global Corporate
- North America Commercial
- Europe
- Latin America
- Asia-Pacific
- Middle East and Africa

The Global Life segment is managed on a regional-based structure within a global framework, including:

- North America
- Latin America
- Europe
- Asia-Pacific and Middle East

The 2010 segmental results have been restated to reflect these changes, with no impact on the Zurich Insurance Group's financial position or performance.

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 on investments and impairments (except for the capital markets and banking 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 29.1

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2011	2010	**2011**	2010
Revenues				
Direct written premiums[1]	32,379	30,906	9,335	9,993
Assumed written premiums	2,193	2,161	97	120
Gross written premiums	34,572	33,066	9,432	10,113
Policy fees	–	–	2,152	2,179
Gross written premiums and policy fees	34,572	33,066	11,583	12,292
Less premiums ceded to reinsurers	(5,325)	(5,100)	(682)	(754)
Net written premiums and policy fees	29,247	27,966	10,901	11,539
Net change in reserves for unearned premiums	(171)	(122)	(36)	(26)
Net earned premiums and policy fees	29,076	27,844	10,865	11,513
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,807	2,913	4,575	4,390
Net investment income on Group investments	2,799	2,867	4,146	3,892
Net capital gains/(losses) and impairments on Group investments	8	46	429	498
Net investment result on unit-linked investments	–	–	(3,548)	9,639
Other income	922	709	1,012	918
Total BOP revenues	32,805	31,467	12,904	26,460
of which: inter-segment revenues	*(573)*	*(413)*	*(341)*	*(295)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	20,914	19,795	9,503	10,140
Losses and loss adjustment expenses, net	20,894	19,773	59	76
Life insurance death and other benefits, net	20	22	10,208	9,773
(Decrease)/increase in future life policyholders' benefits, net[1]	–	1	(764)	291
Policyholder dividends and participation in profits, net	9	3	(2,826)	10,302
Income tax expense/(benefit) attributable to policyholders	–	–	(242)	462
Underwriting and policy acquisition costs, net	5,587	5,409	2,029	1,503
Administrative and other operating expense (excl. depreciation/amortization)	3,673	3,134	2,394	1,883
Interest credited to policyholders and other interest	24	39	395	428
Restructuring provisions and other items not included in BOP	(238)	(306)	(130)	(179)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	29,969	28,074	11,123	24,539
Business operating profit (before interest, depreciation and amortization)	**2,836**	**3,392**	**1,781**	**1,922**
Depreciation and impairments of property and equipment	86	83	30	32
Amortization and impairments of intangible assets	278	398	315	303
Interest expense on debt	209	222	56	71
Business operating profit before non-controlling interests	2,264	2,689	1,380	1,516
Non-controlling interests	(1)	22	35	49
Business operating profit	**2,265**	**2,667**	**1,345**	**1,467**
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	402	299	296	96

[1] The Global Life segment includes approximately USD 891 million and USD 1,514 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Zurich Insurance Group's Spanish operations for the years ended December 31, 2011 and 2010, respectively (see note 3).

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
–	–	–	–	150	162	–	–	41,864	41,061
3,529	4,194	141	137	144	142	(220)	(256)	5,884	6,498
3,529	4,194	141	137	294	304	(220)	(256)	47,748	47,559
–	–	–	–	300	227	–	–	2,452	2,406
3,529	4,194	141	137	594	531	(220)	(256)	50,200	49,965
–	–	(59)	(54)	(704)	(32)	220	256	(6,550)	(5,683)
3,529	4,194	82	84	(110)	499	–	–	43,650	44,282
(545)	1,380	1	–	2	2	–	(1)	(751)	1,234
2,984	5,574	83	84	(108)	502	–	(1)	42,899	45,516
2,767	2,778	–	–	–	–	–	–	2,767	2,778
133	156	536	532	1,008	594	(792)	(805)	8,267	7,781
133	156	536	532	320	379	(792)	(805)	7,142	7,021
–	–	–	–	688	215	–	–	1,125	760
–	–	–	–	4	454	–	–	(3,544)	10,093
64	91	920	756	85	153	(1,516)	(1,211)	1,488	1,416
5,948	8,600	1,539	1,372	989	1,703	(2,307)	(2,017)	51,876	67,584
(35)	*(38)*	*(1,296)*	*(1,159)*	*(62)*	*(113)*	*2,307*	*2,017*	–	–
2,105	3,708	58	72	475	769	–	–	33,054	34,484
2,105	3,708	1	2	(622)	62	3	–	22,439	23,620
–	–	57	69	618	683	–	–	10,904	10,548
–	–	(1)	–	479	24	(3)	–	(289)	316
–	–	–	–	133	496	–	(1)	(2,685)	10,801
–	–	–	–	–	–	–	–	(242)	462
902	1,733	16	6	9	8	(20)	(10)	8,523	8,649
1,290	1,900	1,132	961	159	126	(1,472)	(1,181)	7,176	6,823
–	1	10	2	41	40	(7)	(3)	463	507
(10)	(602)	(21)	(16)	1	27	–	–	(397)	(1,077)
4,288	6,739	1,194	1,025	818	1,467	(1,499)	(1,195)	45,892	60,649
1,660	**1,860**	**345**	**348**	**171**	**236**	**(809)**	**(822)**	**5,984**	**6,936**
56	65	14	20	4	3	–	–	190	204
118	109	93	64	–	–	–	–	804	874
–	–	1,083	1,181	77	77	(809)	(822)	616	728
1,486	1,686	(845)	(917)	90	156	–	–	4,374	5,130
48	66	–	–	1	1	–	–	83	138
1,438	**1,620**	**(846)**	**(918)**	**89**	**155**	**–**	**–**	**4,292**	**4,992**
171	236	124	91	–	23	–	–	994	745

Consolidated financial statements *continued*

Reconciliation of BOP to net income after income taxes

Table 29.2

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2011	2010	**2011**	2010
Business operating profit	**2,265**	**2,667**	**1,345**	**1,467**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	526	281	407	14
Net gain/(loss) on divestments of businesses	(5)	5	16	33
Restructuring provisions	(145)	(71)	(69)	(21)
Net income/(expense) on intercompany loans[2]	(49)	(55)	(14)	(37)
Other adjustments	(45)[3]	(180)[3]	(48)[4]	(121)
Add back:				
Business operating profit attributable to non-controlling interests	(1)	22	35	49
Net income before shareholders' taxes	**2,547**	**2,668**	**1,672**	**1,384**
Income tax expense/(benefit) attributable to policyholders	–	–	(242)	462
Net income before income taxes	**2,547**	**2,668**	**1,431**	**1,845**
Income tax expense (attributable to policyholders and shareholders)				
Net income after taxes				

[1] Includes USD 570 million settlement costs related to the FOGEL case (see note 25).
[2] The impact on Zurich Insurance Group level relates to foreign currency translation differences.
[3] Includes USD 85 million and USD 112 million as of December 31, 2011 and 2010, respectively, of software impairments related to a restructuring program impacting several European countries (see notes 17 and 19).
[4] Includes USD 67 million related to a voluntary settlement of an insurance liability in Italy.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	1,438	**1,620**	**(846)**	**(918)**	**89**	**155**	**4,292**	**4,992**
	(12)	(9)	246	189	37	34	1,203	508
	–	–	(5)	–	–	1	6	38
	(9)	(17)	–	–	–	(1)	(222)	(111)
	–	–	65	86	–	–	2	(5)
	(1)	(585)[1]	(86)	(103)	1	28	(178)	(960)
	48	66	–	–	1	1	83	138
	1,464	**1,074**	**(625)**	**(744)**	**128**	**218**	**5,186**	**4,600**
	–	–	–	–	–	–	(242)	462
	1,464	**1,074**	**(625)**	**(744)**	**128**	**218**	**4,945**	**5,062**
							(984)	(1,390)
							3,961	**3,672**

Consolidated financial statements *continued*

Assets and liabilities by business segment

Table 29.3

in USD millions, as of December 31	General Insurance		Global Life	
	2011	2010	**2011**	2010
Assets				
Total Group Investments	84,142	85,967	101,741	100,983
Cash and cash equivalents	8,261	9,024	3,247	2,564
Equity securities	5,275	5,561	4,113	5,208
Debt securities	62,894	64,136	68,055	64,471
Real estate held for investment	2,911	2,940	5,126	4,893
Mortgage loans	1,472	1,495	8,177	8,538
Other loans	3,325	2,806	12,959	15,212
Investments in associates and joint ventures	6	6	65	97
Holdings in related companies	–	–	–	–
Investments for unit-linked contracts	–	–	93,096	96,139
Total investments	84,142	85,967	194,837	197,122
Reinsurers' share of reserves for insurance contracts	13,440	13,320	2,068	1,997
Deposits made under assumed reinsurance contracts	71	120	19	11
Deferred policy acquisition costs	3,500	3,426	13,011	12,686
Deferred origination costs	–	–	824	866
Goodwill	827	869	413	411
Other intangible assets	1,158	1,208	2,895	3,022
Other assets[1]	14,632	14,743	22,311	7,367
Total assets (after cons. of investments in subsidiaries)	**117,770**	**119,654**	**236,378**	**223,482**
Liabilities				
Liabilities for investment contracts	–	–	50,661	50,912
Reserves for insurance contracts, gross	80,462	80,242	136,248	138,536
Reserves for losses and loss adjustment expenses, gross	64,074	63,864	39	58
Reserves for unearned premiums, gross	15,026	15,084	205	201
Future life policyholders' benefits, gross	92	103	74,162	74,901
Policyholders' contract deposits and other funds, gross	1,269	1,192	14,195	13,397
Reserves for unit-linked contracts, gross	–	–	47,647	49,978
Senior debt	5,354	5,152	948	457
Subordinated debt	1,038	1,700	333	793
Other liabilities[2]	12,858	14,261	30,368	17,960
Total liabilities	**99,712**	**101,354**	**218,558**	**208,659**
Equity				
Common shareholders' equity				
Preferred securities				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				

[1] The General Insurance and Global Life segments include assets held for sale amounting to USD 38 million and USD 17 million, respectively. See note 5.
[2] The General Insurance and Global Life segments include liabilities held for sale amounting to USD 41 million and USD 14 million, respectively. See note 5.

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	4,267	4,526	19,831	22,533	11,059	11,714	(26,890)	(28,876)	194,151	196,846
	580	808	8,796	9,294	2,209	2,328	(14,509)	(14,460)	8,583	9,559
	93	83	1,838	2,952	219	231	–	–	11,537	14,035
	1,295	1,296	4,563	4,070	6,795	6,943	(962)	(980)	142,639	139,936
	132	135	42	45	258	261	–	–	8,468	8,274
	–	–	–	–	–	–	–	–	9,649	10,032
	2,168	2,204	4,586	6,080	1,495	1,871	(11,420)	(13,436)	13,113	14,737
	–	–	6	5	84	80	–	–	161	188
	–	–	–	86	–	–	–	–	–	86
	–	–	–	–	11,508	11,808	–	–	104,603	107,947
	4,267	4,526	19,831	22,533	22,566	23,522	(26,890)	(28,876)	298,754	304,794
	–	212	–	–	4,509	4,328	(656)	(1,041)	19,361	18,816
	2,141	2,201	–	–	508	530	(28)	(26)	2,711	2,837
	352	167	–	–	1	1	–	–	16,864	16,281
	–	–	–	–	–	–	–	–	824	866
	819	819	–	5	–	–	–	–	2,060	2,104
	1,434	1,453	286	269	–	–	–	–	5,773	5,952
	1,009	1,202	1,895	2,728	1,186	1,044	(1,814)	(2,228)	39,219	24,857
	10,023	**10,581**	**22,011**	**25,534**	**28,771**	**29,425**	**(29,387)**	**(32,170)**	**385,566**	**376,507**
	–	–	–	–	–	–	–	(246)	50,661	50,667
	2,728	2,711	39	57	21,972	22,194	(637)	(1,021)	240,811	242,719
	1,410	1,938	28	46	2,559	2,953	(586)	(752)	67,525	68,107
	1,318	773	4	5	22	25	(9)	(7)	16,567	16,081
	–	–	6	6	5,097	4,569	(42)	(265)	79,314	79,315
	–	–	–	–	2,787	2,839	–	2	18,251	17,430
	–	–	–	–	11,507	11,807	–	–	59,154	61,786
	125	–	22,591	24,197	2,134	2,462	(24,087)	(25,158)	7,065	7,110
	–	–	5,432	6,820	23	23	(1,350)	(2,512)	5,476	6,824
	1,635	2,024	3,271	2,348	2,719	2,397	(3,313)	(3,234)	47,538	35,756
	4,488	**4,735**	**31,332**	**33,422**	**26,848**	**27,075**	**(29,387)**	**(32,170)**	**351,550**	**343,075**
									31,381	31,862
									–	–
									31,381	31,862
									2,634	1,570
									34,015	33,432
									385,566	**376,507**

Consolidated financial statements *continued*

General Insurance – Revenues by region

Table 29.4

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers		of which Global Corporate	
	2011	2010	**2011**	2010
Middle East	118	60	80	60
Africa				
South Africa	539	634		
Morocco	130	109		
Subtotal Africa	669	743	–	–
Latin America				
Argentina	278	224		
Brazil	571	412		
Chile	270	220		
Mexico	291	258		
Venezuela	244	225		
Rest of Latin America	34	34		
Subtotal Latin America	1,687	1,374	–	–
North America				
United States	11,494	11,281		
Rest of North America	930	920		
Subtotal North America	12,424	12,201	2,838	2,671
Asia-Pacific				
Australia	1,114	943		
Hong Kong	182	154		
Japan	736	606		
Taiwan	126	119		
Rest of Asia-Pacific	288	205		
Subtotal Asia-Pacific	2,446	2,027	590	481
Europe				
United Kingdom	3,878	4,069		
Germany	3,387	3,106		
Switzerland	3,408	2,961		
Italy	2,122	2,175		
Spain	1,671	1,709		
Rest of Europe	2,750	2,605		
Subtotal Europe	17,215	16,624	4,150	4,088
Total	**34,559**	**33,029**	**7,659**	**7,299**

General Insurance – Non-current assets by region

Table 29.5

in USD millions, as of December 31	Property / equipment and intangible assets	
	2011	2010
Middle East	35	–
Africa		
South Africa	19	25
Morocco	31	35
Subtotal Africa	50	60
Latin America		
Argentina	7	4
Brazil	170	151
Chile	1	1
Mexico	10	11
Venezuela	13	8
Rest of Latin America	5	8
Subtotal Latin America	207	183
North America		
United States	247	232
Rest of North America	6	8
Subtotal North America	254	240
Asia-Pacific		
Australia	79	79
Hong Kong	6	7
Japan	33	34
Taiwan	18	19
Rest of Asia-Pacific	4	2
Subtotal Asia-Pacific	140	141
Europe		
United Kingdom	199	212
Germany	210	225
Switzerland	589	674
Italy	49	65
Spain	501	543
Rest of Europe	609	668
Subtotal Europe	2,158	2,386
Total	**2,844**	**3,012**

Consolidated financial statements *continued*

Global Life – Revenues by region

Table 29.6

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers		Life insurance deposits	
	2011	2010	**2011**	**2010**
North America				
United States	793	772	298	220
Subtotal North America	793	772	298	220
Latin America				
Chile	348	416	–	8
Argentina	36	33	44	37
Bolivia	12	10	12	10
Mexico	73	74	–	–
Venezuela	57	51	–	–
Brazil	148	86	218	99
Subtotal Latin America	674	670	274	154
Europe				
United Kingdom	1,539	1,519	6,359	4,726
Germany	3,273	3,695	2,234	2,541
Switzerland	1,964	1,542	106	57
Ireland[2]	573	510	2,036	2,547
Spain	1,344	2,264	1,560	2,157
Italy	361	351	841	828
Portugal	31	30	53	75
Austria	212	231	55	–
Subtotal Europe	9,296	10,143	13,244	12,931
Asia-Pacific and Middle East				
Hong Kong	89	79	146	169
Indonesia	1	–	–	–
Australia	304	242	79	87
Japan	101	90	22	22
Malaysia	85	–	–	–
Zurich International Life[1]	108	155	1,525	1,143
Subtotal Asia-Pacific and Middle East	687	566	1,771	1,421
Other				
Luxembourg[2]	4	3	541	656
International Group Risk Solutions[3]	66	58	–	–
Subtotal Other	70	61	541	656
Total	**11,520**	**12,212**	**16,127**	**15,382**

[1] Mainly includes business written through licenses into Asia-Pacific and Middle East
[2] Includes business written with freedom of service and freedom of establishment into Europe.
[3] Includes business written through licenses into all regions.

Table 29.7

Global Life – Non-current assets by region

in USD millions, as of December 31	Property / equipment and intangible assets	
	2011	2010
North America		
United States	174	193
Subtotal North America	174	193
Latin America		
Chile	21	20
Argentina	9	5
Mexico	1	1
Brazil	43	50
Subtotal Latin America	74	77
Europe		
United Kingdom	415	410
Germany	816	911
Switzerland	60	157
Ireland	3	5
Spain	1,833	1,991
Italy	244	148
Austria	6	6
Subtotal Europe	3,378	3,629
Asia-Pacific and Middle East		
Hong Kong	7	3
Indonesia	3	–
Australia	–	1
Japan	3	3
Malaysia	109	–
Zurich International Life	5	5
Subtotal Asia-Pacific and Middle East	127	11
Other		
Luxembourg	4	2
Subtotal Other	4	2
Total	**3,757**	**3,912**

Consolidated financial statements *continued*

30. Significant subsidiaries

Significant subsidiaries

as of December 31, 2011	Domicile	Segment[1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Australia						
ZCM Asia Holdings Pty Limited	Sydney	Other Operating Businesses	100	100	AUD	172.1
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/ Global Life	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
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	370.8
Chile						
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	3.4
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	100	100	EUR	68.5
Ireland						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Global Funding Limited	Dublin	Other Operating Businesses	100	100	EUR	0.001
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	85.9

[1] The segments are defined in the notes to the Consolidated financial statements, note 29, Segment information.
[2] Zurich Insurance Holding (Cyprus) Limited holds indirectly 99.9% of Zurich Insurance Company Limited 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 15.17 percent of the shares of Deutscher Herold Aktiengesellschaft to the Zurich Financial Services Group.

Significant subsidiaries (continued)

as of December 31, 2011	Domicile	Segment	Voting rights %	Ownership interest %		Nominal value of common stock (in local currency millions)
Luxembourg						
Zurich Eurolife S.A.	Bertrange	Global Life	100	100	EUR	20.0
Zurich Finance (Luxembourg) S.A.	Luxembourg	Other Operating Businesses	100	100	EUR	0.1
Malaysia						
Malaysian Assurance Alliance Berhad	Kuala Lumpur	Global Life/ General Insurance	100	100	MYR	579.0
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
ZS Insurance America, S.L.[5]	Madrid	Global Life/ General Insurance	51	51	EUR	177.0
Zurich Latin America Holding S.L. – Sociedad Unipersonal[5]	Barcelona	Other Operating Businesses	100	100	EUR	43.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Global Life	100	100	EUR	56.4
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	17.0
Zurich Life Insurance Company Ltd[6]	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.	Istanbul	General Insurance	100	100	TRY	133.8
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	25.0
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, 2011, the company had a market capitalization of ZAR 2.2 billion (ISIN Number 000094496).
[5] Represents the Group's newly acquired Santander insurance operations in Latin America (see note 5). The results of the operating activities will be included in the Global Life and General Insurance segments, whereas the headquarter's activities will be included in Other Operating Businesses.
[6] The results of the operating activities are included in the Global Life segment, whereas the headquarter's activities are included in Other Operating Businesses.

Consolidated financial statements *continued*

Significant subsidiaries (continued)

as of December 31, 2011	Domicile	Segment	Voting rights %	Ownership interest %		Nominal value of common stock (in local currency millions)
United States of America						
Farmers Group, Inc.[7]	Reno, NV	Farmers	87.90	95.38	USD	0.001
Farmers New World Life Insurance Company[7]	Mercer Island, WA	Global Life	87.90	95.38	USD	6.6
Farmers Reinsurance Company[7]	Los Angeles, CA	Farmers	87.90	95.38	USD	58.8
Farmers Services LLC[8]	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	Global Life/ Non-Core Businesses	100	100	USD	2.5
ZFS Finance (USA) LLC V[8]	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	20.2

[7] 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.
[8] These entities are LLCs and have no share capital.

31. Events after the balance sheet date

On January 11, 2012, the Zurich Insurance Group announced the successful placement of USD 500 million of undated Capital Notes (hybrid capital), first callable in 2018, primarily to investors in the Asian market. The hybrid capital has been issued by Zurich Insurance Company Ltd under the EMTN Programme. The coupon has been set at 8.25 percent.

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 16 to 50 and 53 to 167), for the year ended December 31, 2011.

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, 2011 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

Richard Burger	Patrick Shouvlin
Audit expert	Global relationship partner
Auditor in charge	

Zurich, March 7, 2012

Financial statements – statutory accounts

Board of Directors and auditors as of December 31, 2011

Board of Directors and auditors

	Residence	Expiration of current term of office
Zurich Insurance Company Ltd Board of Directors		
Manfred Gentz, Chairman	Berlin, Germany	2012
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	2014
Armin Meyer	Erlenbach, Switzerland	2013
Donald Nicolaisen	Califon, NJ, USA	2012
Vernon Sankey	Farnham Common, UK	2012
Tommy de Swaan	Amsterdam, Netherlands	2014
Rolf Watter	Thalwil, Switzerland	2013
Hans-Ulrich Schoch, Corporate Secretary		
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 for the 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 Hong Kong as well as assumed reinsurance business from subsidiaries.

With effect from January 1, 2011, ZIC merged its former subsidiaries ZG Investments II Ltd., ZG Investments III Ltd. and ZG Investments IV Ltd., all incorporated in Hamilton (Bermuda). ZIC absorbed all the assets and liabilities of these three companies as of January 1, 2011.

During 2011, for a total cost of CHF 123 million, ZIC acquired 100 percent of Malaysian Assurance Alliance Bhd (MAA), a composite insurer based in Malaysia, which also included the 100 percent acquisition of four related service companies.

In 2011, ZIC has repaid the subordinated debt of CHF 1,700 million and CHF 1,300 million (partial repayment of subordinated debt of CHF 6,132 million) to Zurich Financial Services Ltd.

At the Extraordinary General Meeting of shareholders, an extraordinary dividend in the amount of CHF 1.5 billion was approved and paid out of retained earnings on December 7, 2011.

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. As of December 31, 2010, CHF 5,569 million of the general free reserve have been reclassified to the new capital contribution reserve.

Financial statements – statutory accounts *continued*

Key figures

in CHF millions, for the years ended or as of December 31, respectively	2011	2010
Gross written premiums and policy fees, general insurance direct business	4,362	4,511
Gross written premiums and policy fees, assumed reinsurance	14,903	18,951
Total gross written premiums and policy fees	19,265	23,462
Net written premiums and policy fees	16,917	21,126
Net earned premiums and policy fees	16,329	20,401
Insurance benefits and losses, net of reinsurance	(12,202)	(14,231)
Underwriting and policy acquisition costs, administrative and other operating expense	(5,205)	(6,120)
Underwriting result, net	(1,169)	(61)
Net investment income	3,620	4,287
Net income after taxes	2,425	4,141
Total investments	70,185	68,948
Insurance reserves, net	35,677	33,886
Shareholder's equity (after proposed appropriation of available earnings)	17,511	18,986

Net income after taxes

Net income after taxes decreased by CHF 1,716 million to CHF 2,425 million or by 41 percent. The underwriting result, net, decreased by CHF 1.1 billion to a loss of CHF 1.2 billion, mainly due to the participation change to the All Lines Quota Share reinsurance agreement with Farmers Exchanges and due to the negative currency translation impact as a result of the strengthening of the Swiss franc. Also, the net investment income decreased by CHF 667 million to CHF 3,620 million. CHF 522 million of this decrease is due to lower dividend income from investments in subsidiaries which amounted to CHF 2,559 million compared to CHF 3,081 million in 2010. Last year's net investment income included a gain of CHF 336 million from the transfer of the assets and liabilities at market value from the Company's Italy branch to Zurich Insurance plc, Ireland. In 2011, the merger with the former subsidiaries ZG Investments II Ltd., ZI Investment III Ltd. and ZG Investments IV Ltd. resulted in a write-down of CHF 263 million.

The combined ratio increased by 7 percentage points to 107 % in 2011. Both underlying ratios, the loss ratio and expense ratio, increased in 2011 due to the significant decrease in net earned premiums.

Gross written premiums and policy fees

Gross written premiums and policy fees decreased by CHF 4,197 million or 18 percent to CHF 19,265 million for the year ended December 31, 2011. In local currency gross written premiums and policy fees decreased by 8 percent.

Direct business gross written premiums and policy fees decreased by 3 percent to CHF 4,362 million. Assumed reinsurance gross written premiums and policy fees decreased by 21 percent or CHF 4,048 million to CHF 14,903 million mainly due to the participation change to the All Lines Quota Share reinsurance agreement with Farmers Exchanges. The decreased foreign exchange rates have impacted the direct business gross written premiums and policy fees of the assumed business significantly.

Shareholder's equity

The increase of CHF 925 million in the shareholder's equity is the result of the net income after taxes of CHF 2,425 million and the extraordinary dividend of CHF 1,500 million paid out of the retained earnings in December 2011.

Income statements

Income statements

in CHF millions, for the years ended December 31	Notes	2011	2010
Revenues			
Gross written premiums and policy fees		19,265	23,462
Less premiums ceded to reinsurers		(2,348)	(2,336)
Net written premiums and policy fees		16,917	21,126
Net change in reserves for unearned premiums		(588)	(725)
Net earned premiums and policy fees		16,329	20,401
Net investment income	4	3,620	4,287
Net realized capital gains/(losses) on investments and write-downs	5	651	804
Other income	6	1,186	926
Total revenues		21,786	26,418
Benefits, losses and expenses			
Insurance benefits and losses, net of reinsurance	7	(12,202)	(14,231)
Policyholder dividends and participation in profits, net of reinsurance		(89)	(19)
Underwriting and policy acquisition costs, net of reinsurance		(4,398)	(5,343)
Administrative and other operating expense		(807)	(777)
Other expense	8	(1,101)	(1,271)
Interest expense on debt		(552)	(467)
Interest credited to policyholders and other interest		(59)	(73)
Total benefits, losses and expenses		(19,208)	(22,181)
Net income before taxes		**2,578**	**4,237**
Taxes		(153)	(96)
Net income after taxes		**2,425**	**4,141**

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	2011	2010
Investments			
Cash and cash equivalents		3,916	5,184
Equity securities		2,113	1,699
Debt securities		29,332	27,773
Real estate		1,349	1,367
Mortgage loans		1,309	1,319
Policyholders' collateral and other loans		2,170	1,939
Investments in subsidiaries and associates	9	28,688	28,880
Other investments		1,308	787
Total investments		**70,185**	**68,948**
Other assets			
Deposits made under assumed reinsurance contracts		3,950	3,961
Accrued assets		551	549
Receivables from agents and outstanding premiums		338	330
Receivables from insurance and reinsurance companies		1,455	1,664
Other receivables	10	1,242	1,960
Furniture and equipment	11	71	105
Intangible assets	12	623	688
Other assets		67	17
Total other assets		**8,297**	**9,274**
Total assets		**78,482**	**78,222**

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

Liabilities and shareholder's equity

in CHF millions, as of December 31	Notes	**2011**	2010
Short-term liabilities			
Deposits received under ceded reinsurance contracts		544	580
Amounts due to reinsurance and other insurance companies		975	1,105
Prepaid premiums and other creditors		1,776	1,272
Bank overdrafts		15	62
Accrued liabilities		821	501
Other liabilities		743	1,187
Total short-term liabilities		4,874	4,707
Long-term liabilities			
Provisions	13	754	734
Senior debt	14	10,543	10,669
Subordinated debt	14	6,723	9,241
Total long-term liabilities		18,020	20,644
Insurance reserves, net	15	35,677	33,886
Total liabilities		**58,571**	**59,236**
Shareholder's 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*	*5,570*	*5,569*
General free reserve		4,272	4,272
Retained earnings:			
Beginning of year		*7,835*	*3,693*
Extraordinary dividend paid		*(1,500)*	*–*
Net income after taxes		*2,425*	*4,141*
Retained earnings, end of year		8,759	7,835
Total shareholder's equity (before appropriation of available earnings)		**19,911**	**18,986**
Total liabilities and shareholder's equity		**78,482**	**78,222**

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

Financial statements – statutory accounts *continued*

Notes to the financial statements

1. Basis of presentation

The Company's financial statements are presented in accordance with the Swiss Code Code of Obligations and relevant insurance supervisory 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. Material holdings in quoted equity securities held for strategic reasons as well as unquoted equity securities are carried at a maximum of the acquisition cost with a deduction for necessary impairments. In cases where the value of these equity securities held 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 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 Insurance Supervision 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. Some realized capital gains/losses include the reversal of write-downs/write-ups 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 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 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 (IBNR). 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 as of the balance sheet date. In many insurance contracts, the insurance period for which the insurance company assumes a risk against a premium paid does not correspond to the Company's financial year. Thus, an amount equivalent to the unearned portion of the premium is set up as a reserve at the end of the financial year.

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	Balance sheets		Income statements	
	12/31/2011	12/31/2010	**2011**	2010
Canadian dollar	0.92	0.94	0.89	1.01
Euro	1.22	1.25	1.23	1.38
British pound	1.46	1.46	1.42	1.61
US dollar	0.94	0.93	0.88	1.04

4. Net investment income

Net investment income

in CHF millions, for the years ended December 31	**2011**	2010
Cash and cash equivalents	30	22
Equity securities	26	20
Debt securities	827	947
Real estate	83	88
Mortgage loans	33	35
Policyholders' collateral and other loans	73	103
Investments in subsidiaries and associates	2,559	3,081
Other investments	(11)	(8)
Total net investment income [1]	**3,620**	**4,287**

[1] Net investment income includes investment expenses of CHF 35 million and CHF 27 million for the years ended December 31, 2011 and 2010 respectively.

Total net investment income decreased by CHF 667 million or 16 percent to CHF 3,620 million in 2011. Investment income on debt securities decreased by CHF 120 million or 13 percent to CHF 827 million. Dividend income from subsidiaries and associates decreased by CHF 522 million to CHF 2,559 million in 2011. This decrease was mainly driven by lower dividend income from the Company's subsidiary Zurich Holding Ireland Limited.

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

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

in CHF millions, for the years ended December 31	Realized gains		Realized losses		Write-ups and write-downs		Totals	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	–	–	–	(1)	–	–	–	(1)
Equity securities	117	405	(44)	(115)	(68)	162	4	451
Debt securities	327	417	(203)	(124)	–	(15)	123	278
Real estate	5	55	(5)	(1)	(7)	(3)	(6)	51
Investments in subsidiaries and associates	13	–	(2)	–	(287)	(44)	(276)	(44)
Other investments	836	152	(31)	(82)	–	–	805	69
Total net realized capital gains/(losses) on investments and write-downs	**1,298**	**1,028**	**(285)**	**(324)**	**(363)**	**100**	**651**	**804**

Realized capital gains increased by 26 percent to CHF 1,298 million, while realized capital losses decreased by 12 percent to CHF 285 million in 2011. Realized capital gains on equity securities include a gain due to a sale of shares in New China Life Insurance Co., Ltd. (CHF 49 million and CHF 348 million in 2011 and 2010, respectively). Write-ups and write-downs increased by CHF 463 million from write-ups of CHF 100 million in 2010 to write-downs of CHF 363 million in 2011. This is mainly due to the write-down on investments in subsidiaries and associates of CHF 263 million in connection with the merger of several ZG Investments units. The increase in realized capital gains on other investments from CHF 152 million to CHF 836 million is mainly due to higher realized capital gains on derivatives.

6. Other income

Other income includes interest income on reinsurance deposits as well as other technical and other non-technical income.

7. Insurance benefits and losses

Insurance benefits and losses

in CHF millions, for the years ended December 31	**2011**	2010
Loss payments, annuities and claims handling expenses, gross	(12,385)	(13,518)
Reinsurers' share	1,488	1,449
Loss payments, annuities and claims handling expenses, net	(10,897)	(12,069)
Change in reserves for losses and loss adjustment expenses, net	(1,305)	(2,163)
Total insurance benefits and losses, net of reinsurance	**(12,202)**	**(14,231)**

Total insurance benefits and losses decreased by CHF 2,029 million to CHF 12,202 million mainly as a result of the participation change to the All Lines Quota Share reinsurance agreement with Farmers Exchanges.

8. Other expense

Other expense includes foreign currency transaction gains and losses, other non-technical expenses, gains/losses on derivates and amortization and impairments on software. Net results on foreign currency transactions amounted to a loss of CHF 113 million. Other non technical expenses increased by CHF 278 million to CHF 798 million compared to 2010. Gains/losses on derivatives show a gain which is CHF 515 million higher than 2010. Amortization/ impairments on software was reduced by CHF 65 million compared to 2010.

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 89 percent of the total investments in subsidiaries and associates of CHF 28,688 million.

Significant subsidiaries

as of December 31, 2011	Domicile	Voting rights %	Ownership interest %		Nominal value of common stock (in local currency millions)
Bermuda					
CMSH Limited	Hamilton	100	100	USD	0.3
Zurich International (Bermuda) Ltd.	Hamilton	100	100	USD	9.9
Cyprus					
Zurich Insurance Holding (Cyprus) Ltd[1]	Nicosia	100	100	RUB	4.0
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	Dublin	4.5	4.5	EUR	8.2
Italy					
Zurich Investments Life S.p.A.	Milan	100	100	EUR	74
Switzerland					
Zurich Life Insurance Company Ltd	Zurich	100	100	CHF	60
United Kingdom					
Allied Zurich Holdings Limited	Jersey, Channel Islands	100	100	GBP	90.7
Zurich International Life Limited[2]	Isle of Man	100	100	GBP	35.6
United States of America					
Farmers Group, Inc.[3]	Reno, NV	87.9	95.4	USD	0.001
Zurich Holding Company of America, Inc.[4]	Wilmington, DE	99.2	99.2	USD	0.0

[1] In 2010 nominal value of common stock was RUB 2.7 million.
[2] Compared to the prior year, Zürich International Life Limited is new on the list of significant subsidiaries, whereas Zurich Versicherungs-Aktiengesellschaft, ZG Investments Ltd., Zurich Finance Bermuda Ltd. and Zurich Investment Management AG do not meet the criteria anymore. ZG Investment IV Ltd. is not on the list anymore because of its merger with the Company.
[3] The ownership percentage in Farmers Group, Inc. has been calculated based on the participation rights of ZIC in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
[4] In 2010 voting rights % was 99.9 and ownership interest % was 99.9.

10. Other receivables

Other receivables decreased by CHF 718 million in 2011 to CHF 1,242 million, primarily due to the settlement related to the NCI transaction which led to the high balance in 2010.

11. Furniture and equipment

Furniture and equipment

in CHF millions, as of December 31	2011	2010
Furniture and equipment	330	344
Accumulated amortisation	(259)	(239)
Total furniture and equipment	**71**	**105**

The decrease in furniture and equipment is mainly due lower expenditures in Switzerland.

12. Intangible assets

Intangible assets

in CHF millions, as of December 31	2011	2010
Brand names, patents, trademarks etc.	213	270
Software	410	419
Total intangible assets	**623**	**688**

The decrease in brand names, patents and trademarks resulted from regular amortization charges in the year.

13. Provisions

This position consists 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		2011	2010
Issuances to capital markets	3.875% CHF 1,000 million, due July 2011	–	1,000
Issuances to capital markets under Euro Medium Term Note Programme	3.75% CHF 500 million, due September 2013	500	500
Issuances to capital markets under Euro Medium Term Note Programme	2.25% CHF 500 million, due July 2017	500	–
Issuances to capital markets under Euro Medium Term Note Programme	2.375% CHF 525 million, due November 2018	525	–
Issuances to capital markets under Euro Medium Term Note Programme	2.875% CHF 250 million, due July 2021	250	–
Senior debt with ZFS Group	various	8,768	9,169
Total senior debt		**10,543**	10,669

Financial statements – statutory accounts *continued*

b) Subordinated debt

Subordinated debt

in CHF millions, as of December 31		2011	2010
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	4,832 [1]	6,132
Issuances to capital markets under Euro Medium Term Note Programme	4.25% CHF 700 million perpetual loan, first call date May 26, 2016	700	700
Issuances to capital markets under Euro Medium Term Note Programme	7.5 % EUR 425 million subordinated notes, callable July 2019, due July 2039	517	529
Issuances to capital markets under Euro Medium Term Note Programme	4.625% CHF 500 million perpetual loan, first call date May 16, 2018	500	–
Issuances to capital markets under Euro Medium Term Note Programme	12 % EUR 143 million fixed rate until July 15, 2014, 3 months Euribor + 10.33 % thereafter, perpetual, first call date July 15, 2014	174	179
Total subordinated debt		**6,723**	9,241

[1] In 2011, CHF 1,300 million was repaid to Zurich Financial Services Ltd.

15. Insurance reserves gross and ceded

Insurance reserves

in CHF millions, as of December 31	2011	2010
Gross		
Reserves for losses and loss adjustment expenses	30,061	28,854
Reserves for unearned premiums	5,137	4,537
Future life policyholders' benefits	5,607	4,904
Policyholders' contract deposits and other funds	1,069	993
Reserve for premium refunds and other insurance reserves	421	397
Total insurance reserves, gross	**42,296**	**39,686**
Ceded		
Reserves for losses and loss adjustment expenses	(5,672)	(4,976)
Reserves for unearned premiums	(849)	(735)
Future life policyholders' benefits	(96)	(88)
Policyholders' contract deposits and other funds	(2)	(2)
Total insurance reserves, ceded	**(6,618)**	**(5,800)**
Net		
Reserves for losses and loss adjustment expenses	24,389	23,879
Reserves for unearned premiums	4,289	3,802
Future life policyholders' benefits	5,511	4,817
Policyholders' contract deposits and other funds	1,067	991
Reserve for premium refunds and other insurance reserves	421	397
Total insurance reserves, net	**35,677**	**33,886**

Total insurance reserves, net, increased by 5 percent to CHF 35,677 million, mainly due to increases in the insurance reserves of assumed business.

16. Share capital

Share capital and profit sharing certificates

number of shares, as of December 31	2011	2010
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 liquidations proceeds.

a) Issued share capital

As of December 31, 2011 and 2010, 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, 2011.

c) Profit sharing certificates

As of December 31, 2011 and 2010, ZIC had issued two profit sharing certificates with no par value.

d) Shareholders

As of December 31, 2011 and 2010, 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.

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	2011	2010
Assets[1]		
Cash and cash equivalents	2,068	3,434
Debt securities	14	14
Policyholders' collateral and other loans	2,083	1,858
Other investments	312	172
Deposits made under assumed reinsurance contracts	1,818	1,735
Accrued assets	227	164
Receivables from agents and outstanding premiums	2	3
Receivables from insurance and reinsurance companies	842	1,009
Other receivables	327	658
Total assets	7,693	9,048
Liabilities[2]		
Deposits received under ceded reinsurance contracts	(2)	(2)
Amounts due to reinsurance and other insurance companies	(684)	(708)
Prepaid premiums and other creditors	(274)	(164)
Accrued liabilities	(337)	(94)
Other liabilities	(433)	(557)
Senior debt	(8,768)	(9,169)
Subordinated debt	(4,832)	(7,832)
Insurance reserves, net	(26,178)	(24,267)
Total liabilities	(41,508)	(42,794)

[1] The amounts receivable from shareholders in 2011 are CHF 206 million compared with CHF 2,028 million in 2010.
[2] The amounts due to shareholders in 2011 are CHF 5,535 million compared with CHF 8,452 million in 2010.

Financial statements – statutory accounts *continued*

19. Supplementary information

Supplementary information

in CHF millions, as of December 31	**2011**	2010
Guarantees, indemnity liabilities and pledges in favor of third parties	24,539	14,150
Pledged assets in respect of securities lending agreements (at market value)	2,571	1,904
Leasing obligations not recorded on the balance sheet	57	59
Fire insurance value of real estate, furniture and equipment	2,170	2,209
Personnel expenses (included in underwriting and policy acquistion costs, administrative and expense lines of the income statements)	1,021	1,012

Guarantees, indemnity liabilities and pledges in favor of third parties include three guarantees of USD 3,000 million (CHF 2,813 million) each in favor of subsidiaries to provide funds under certain circumstances. At December 31, 2011, the total maximum exposure under these guarantees amounted to USD 2,412 million (CHF 2,261 million). The comparable amount for the guarantees, indemnity liabilities and pledges in favor of third parties in 2010 would have been CHF 24,024 million, if the three guarantees of USD 3,000 million (CHF 2,802 million) each had been included.

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

According to regulatory requirements, as of December 31, 20 percent and 14 percent of total investments are attributed to tied assets for 2011 and 2010, respectively.

20. Net release of hidden reserves

There has been no material net release of hidden reserves in 2011.

21. Information on the risk assessment process

Refer to the disclosures in the Risk Review on pages 15 to 50 of this Annual Report.

22. Subsequent events

On January 11, 2012, the Group announced the successful placement of USD 500 million of undated Capital Notes (hybrid capital), first callable in 2018, primarily to investors in the Asian market. The hybrid capital has been issued by the Company under its EMTN Programme. The coupon has been set at 8.25 percent.

Appropriation of available earnings as proposed by the Board of Directors

as of December 31	2011	2010
Dividend-paying registered shares		
Dividend-paying shares	82,500,000	82,500,000

in CHF, as of December 31	2011 (Proposed)	2010 (Approved)
Appropriation of available earnings as proposed by the Board of Directors		
Balance brought forward	7,834,583,115	3,693,094,428
Extraordinary dividend paid	(1,500,000,000)	–
Net income for the year	2,424,531,199	4,141,488,687
Available earnings	**8,759,114,314**	**7,834,583,115**
Dividend	(2,400,000,000)	–
Balance carried forward	**6,359,114,314**	**7,834,583,115**

The Board of Directors proposes to the shareholder at the Annual General Meeting to pay out a dividend of CHF 2,400,000,000 and to carry forward available earnings of CHF 6,359,114,314 as shown in the above table.

As the general reserves (consisting of the general legal reserve and the capital contribution reserve) exceeds 100 percent of fully paid-in share capital, no further allocation to the general reserves is required by Swiss Code of Obligations and article 28a of the Company's articles of incorporation.

On behalf of the Board of Directors of Zurich Insurance Company Ltd

Manfred Gentz

Chairman

Zurich, March 7, 2012

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 173 to 184), for the year ended December 31, 2011.

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, 2011, 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 185) 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 7, 2012

Key data of Zurich Insurance Company Ltd

Key data of Zurich Insurance Company Ltd

Key data 2002–2011

in CHF millions, for the years ended or as of December 31, respectively	**2011**	2010
Gross written premiums and policy fees, general insurance direct business	4,362	4,511
Gross written premiums and policy fees, assumed reinsurance	14,903	18,951
Total gross written premiums and policy fees	19,265	23,462
Net written premiums and policy fees	16,917	21,126
Net earned premiums and policy fees	16,329	20,401
Insurance benefits and losses, net of reinsurance	(12,202)	(14,231)
Underwriting and policy acquisition costs, administrative and other operating expense	(5,205)	(6,120)
Underwriting result, net	(1,169)	(61)
Net investment income	3,620	4,287
Net income after taxes	2,425	4,141
Dividend	(2,400)[1]	–
Dividend per share, nominal value CHF 10.– (in Swiss francs)	29.09	–
Investments	70,185	68,948
Insurance reserves, net	35,677	33,886
Shareholder's equity (after proposed appropriation of available earnings)	17,511	18,986

[1] Proposed.
[2] Restated figures, implementation of new and revised accounting standards in 2005, in particular applying new definitions of insurance contracts.
[3] Capital increase of ZIC by CHF 1,700 million.

	2009	2008	2007	2006	2005[2]	2004	2003	2002
	6,625	11,410	12,252	26,770	25,511	23,337	22,351	21,061
	18,400	15,195	13,164	333	305	305	484	1,740
	25,025	26,605	25,415	27,103	25,816	23,642	22,835	22,801
	22,497	24,063	22,645	22,695	21,088	19,772	18,770	17,439
	21,512	22,869	22,504	22,768	21,371	19,759	18,388	15,519
	(15,663)	(17,172)	(16,395)	(15,631)	(16,061)	(13,858)	(13,570)	(12,711)
	(6,376)	(6,331)	(6,392)	(5,848)	(5,242)	(4,929)	(4,962)	(4,757)
	(737)	(714)	(222)	1,247	82	615	(510)	(2,518)
	2,318	3,967	4,173	2,910	2,067	2,268	2,125	3,750
	1,790	656	1,401	2,437	969	1,048	524	(873)
	–	–	1,900	1,300	–	–	–	–
	–	–	23.03	15.76	–	–	–	–
	70,962	78,520	73,179	72,013	64,177	55,459	50,249	46,111
	38,314	43,729	45,275	42,651	38,856	32,647	30,690	26,764
	14,844	11,805	8,929	9,428	8,291	7,322	6,274	5,750 [3]

Disclaimer and cautionary statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predications of or indicate future events, trends, plans or objectives of Zurich Insurance Company Ltd or the Zurich Insurance Group. Forward-looking statements include statements regarding Zurich Insurance Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding Zurich Insurance Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Insurance Company Ltd or the Zurich Insurance Group to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of a global economic downturn, in the financial services industries in particular (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; and (viii) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of Zurich Insurance Company Ltd and its Group and on whether the targets will be achieved. Zurich Insurance Company Ltd undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

It should be noted that past performance is not a guide to future performance.

Persons requiring advice should consult an independent adviser.

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

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

This document is printed on Hello Silk paper. The paper is made from 100% virgin wood fiber from well-managed forests independently certified according to the rules of the Forest Stewardship Council (FSC). It is manufactured at a mill that is certified to ISO14001 and EMAS environmental standards. The mill uses pulps that are totally chlorine-free (TCF), and some pulp is bleached using an elemental chlorine-free (ECF) process. The inks used in printing this report are all vegetable based.

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