

Consolidated statement of income

for the years ended 31 December

in USD millions

	Notes	2001	2000
Revenues			
Gross written premiums and policy fees		34,764	30,410
Less premiums ceded to reinsurers		– 5,916	– 4,887
Net written premiums and policy fees		28,848	25,523
Net change in reserves for unearned premiums		– 1,598	– 763
Net earned premiums and policy fees		27,250	24,760
Farmers management fees and other related revenue		1,690	1,589
Asset management fee income		1,417	1,548
Net investment income		5,996	6,158
Net realized capital gains		821	2,800
Net unrealized losses on investments		– 173	– 481
Gain on disposal of discontinued operations (sale of Converium)	6	298	–
Other income		1,178	1,037
Total revenues		38,477	37,411
Benefits, losses and expenses			
Non-life losses and loss adjustment expenses		– 17,402	– 13,333
Death and other life insurance benefits		– 5,532	– 5,382
Increase in future life policyholders' benefits		– 1,548	– 1,479
Policyholder dividends and participation in profits		– 371	– 1,024
Underwriting and policy acquisition costs		– 4,943	– 4,148
Other operating and administrative expenses		– 6,939	– 7,052
Interest expense on debt		– 781	– 596
Other interest expense		– 784	– 804
Amortization of goodwill and intangible assets		– 392	– 442
Total benefits, losses and expenses		– 38,692	– 34,260
Operating (loss)/income		– 215	3,151
Income tax expense		– 84	– 734
Net (loss)/income before minority interests		– 299	2,417
Net income applicable to minority interests		– 88	– 101
Net (loss)/income		– 387	2,316
in USD			
Basic earnings per share		– 4.63	27.41
Diluted earnings per share		– 4.63	27.27

This summary consolidated financial information is a summary of information included in the Annual Report 2001. It does not contain sufficient information to allow for a complete understanding of the results and financial position of the Zurich Financial Services Group. For further information, the consolidated financial statements and the auditors report on those consolidated financial statements should be read.

Consolidated balance sheet

for the years ended 31 December

in USD millions

Assets	2001	2000
Investments		
Fixed maturities, of which:	69,732	73,250
<i>Held-to-maturity</i>	733	711
<i>Available-for-sale</i>	66,845	69,822
<i>Trading</i>	2,154	2,717
Equity securities, of which:	26,059	28,146
<i>Available-for-sale</i>	16,292	20,538
<i>Trading</i>	9,767	7,608
Investments held by investment companies	1,153	732
Investments in associates	833	1,181
Real estate	5,741	6,109
Mortgage loans	4,569	4,557
Policyholder, collateral and other loans	5,746	3,335
Other investments	1,181	1,082
Short-term investments	1,403	1,820
Cash and cash equivalents	7,231	5,267
Total investments	123,648	125,479
Other assets		
Receivables from policyholders	2,071	2,542
Receivables from agents, brokers and intermediaries	3,187	2,690
Other receivables	6,375	4,134
Accrued investment income	1,462	1,584
Reinsurance assets	18,312	13,913
Deferred policy acquisition costs	9,384	9,193
Real estate held for own use and fixed assets	2,859	2,685
Intangible assets, of which:	4,659	5,074
<i>Goodwill</i>	1,059	1,094
<i>Present value of profits of acquired insurance contracts (PVP)</i>	986	1,265
<i>Other intangible assets</i>	1,461	1,519
<i>Attorney-in-fact relationships</i>	1,153	1,196
Deferred income tax	3,195	4,911
Other assets	1,602	3,356
Separate account (unit-linked) assets	54,851	55,791
Total other assets	107,957	105,873
Total assets	231,605	231,352

Liabilities and shareholders' equity	Notes	2001	2000
Liabilities			
Reserves for losses and loss adjustment expenses, gross	7, 8	37,221	35,736
Reserves for unearned premiums, gross	7	9,644	8,666
Future life policyholders' benefits, gross	7	46,910	46,550
Policyholders' contract deposits and other funds, gross	7	17,644	18,516
Other insurance reserves		2,850	2,870
Funds held under reinsurance contracts		2,960	3,111
Obligation to repurchase securities		3,400	2,043
Deferred income tax		5,171	8,139
Accrued expenses		2,576	2,592
Deferred front-end fees		2,407	2,498
Debt related to capital markets & banking and risk financing activities		6,381	3,659
Senior debt		3,187	4,270
Subordinated debt		1,500	1,531
Other liabilities		13,129	10,642
Separate account (unit-linked) liabilities		55,905	57,243
Total liabilities		210,885	208,066
Minority interests, of which:		2,978	2,621
<i>Preferred securities</i>		2,560	2,120
<i>Other</i>		418	501
Shareholders' equity			
Preferred securities		1,096	–
Common stock		626	626
Treasury stock		– 3	– 2
Additional paid-in capital (capital reserve)		7,706	7,712
Net unrealized gains on investments		1,567	4,065
Cumulative translation adjustment		– 1,151	– 392
Retained earnings		7,901	8,656
Common stockholders' equity		16,646	20,665
Total shareholders' equity		17,742	20,665
Total liabilities and shareholders' equity		231,605	231,352

Consolidated statement of cash flows

for the years ended 31 December

in USD millions

	2001	2000
Cash flows from operating activities		
Operating (loss)/income	– 215	3,151
Adjustments for:		
Net realized capital gains on investments	– 821	– 2,800
Net unrealized gains on investments	173	481
Gain on disposal of discontinued operations (sale of Converium)	– 298	–
Equity in income of investments in associates	80	54
Interest credited to policyholder contract deposits	545	510
Universal life and investment contract policy fee income	– 389	– 335
Depreciation and amortization	894	907
Share based compensation expense	– 106	113
Changes in operational asset and liabilities:		
Deferred policy acquisition costs	76	– 590
Reinsurance assets	– 4,274	– 1,339
Other receivables and payables	– 1,986	8
Reserves for unearned premiums	1,226	832
Reserves for losses and loss adjustment expenses	1,557	– 1,024
Future life policyholders' benefits	1,954	3,077
Other policyholders' funds	– 788	516
Other insurance reserves	161	175
Separate account (unit-linked)	– 334	– 333
Net changes in all other operational assets and liabilities	1,534	1,488
Cash (used in)/provided by operating activities	– 1,011	4,891
Income taxes paid	– 601	– 1,137
Net cash (used in)/provided by operating activities	– 1,612	3,754
Cash flows from investing activities		
Proceeds from sales and maturities of investments in fixed maturities	56,324	45,473
Purchases of fixed maturities	– 55,391	– 48,454
Proceeds from sales of equity securities	28,085	18,161
Purchases of equity securities	– 27,985	– 21,461
Proceeds from sales of investment real estate	358	772
Additions to investment real estate	– 248	– 322
Proceeds from sales of other investments	7,492	3,936
Purchases of other investments	– 8,213	– 4,298
Net decrease in short-term investments	325	67
Net additions to fixed assets	– 1,383	– 570
Acquisitions of companies, net of cash acquired	– 179	– 65
Disposals of companies, net of their cash balances	1,237	–
Investments in associates, net	4	– 146
Dividends from associates	11	4
Net cash provided by/(used in) investing activities	437	– 6,903

	2001	2000
Cash flows from financing activities		
Deposits on universal life and investment contracts	1,732	2,256
Withdrawals from universal life and investment contracts	– 1,438	– 1,685
Proceeds from sale and repurchase agreements	1,400	1,253
Dividends paid to shareholders	– 919	– 1,830
Cash utilized in share repurchase	–	– 664
Issuance/redemption of preferred securities and preferred stock by subsidiaries	736	1,405
Proceeds from issuance of debt	6,588	6,317
Payments on debt outstanding	– 4,851	– 3,027
Net cash provided by financing activities	3,248	4,025
Effect of exchange rate changes on cash and cash equivalents	– 109	– 245
Change in cash and cash equivalents	1,964	631
Cash and cash equivalents at 1 January	5,267	4,636
Cash and cash equivalents at 31 December	7,231	5,267
Supplemental disclosures of operating cash flow information		
Other interest income received	5,206	5,281
Dividend income received	646	530
Other interest expense paid	– 1,334	– 1,141

Other supplemental cash flow disclosures

Significant non-cash investing and financing activity included the conversion of debt securities of USD nil and USD 52 million in 2001 and 2000, respectively.

As a result of the disposal of Converium, Converium assumed USD 200 million nominal value of debt securities previously recognised by the Group.

At 31 December 2001 and 2000, cash and cash equivalents restricted as to use were USD 315 million and USD 398 million, respectively.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

in USD millions	2001	2000
Cash at bank and in hand	3,711	3,606
Cash equivalents	3,520	1,661
Total at 31 December	7,231	5,267

Consolidated statement of shareholders' equity

for the years ended 31 December

in USD millions, except number of shares

	Number of common shares issued	Preferred securities	Common stock
Balance, 31 December 1999, as previously reported*	85,313,687	–	635
Implementation of accounting standard SIC 12 "Consolidation – Special Purpose Entities"	–	–	–
Balance, 31 December 1999, restated*	85,313,687	–	635
Change in net unrealized gains on investments (excluding translation adjustments)	–	–	–
Translation adjustments	–	–	–
Change in net gains and losses not recognized in the income statement	–	–	–
Issuance of common stock*	– 1,427,686	–	– 9
Exercise of convertible bonds	–	–	–
Contributions by shareholders	–	–	–
Treasury stock transactions	–	–	–
Net income	–	–	–
Dividends	–	–	–
Balance, 31 December 2000*, restated	83,886,001	–	626
Balance, 31 December 2000, as previously reported	83,886,001	–	626
Implementation of accounting standard SIC 12 "Consolidation – Special Purpose Entities"	–	–	–
Restatement of preference securities dividends	–	–	–
Balance, 31 December 2000, restated	83,886,001	–	626
Restatement of preference securities dividends	–	–	–
Implementation of accounting standard IAS 40 "Investment Property"	–	–	–
Change in net unrealized gains on investments (excluding translation adjustments)	–	–	–
Translation adjustments	–	–	–
Change in net gains and losses not recognized in the income statement	–	–	–
Net issuance of common stock	–	–	–
Net issuance of preferred securities	–	1,096	–
Treasury stock transactions	–	–	–
Net loss	–	–	–
Dividends	–	–	–
Balance, 31 December 2001	83,886,001	1,096	626

*Restated to retroactively reflect the unification of the Group on 17 October 2000.

Treasury stock (nominal value)	Additional paid-in capital	Net unrealized gains on investments	Cumulative translation adjustment	Retained earnings	Total shareholders' equity
- 4	8,255	4,333	406	8,151	21,776
-	-	- 19	- 4	23	-
- 4	8,255	4,314	402	8,174	21,776
-	-	- 77	-	-	- 77
-	-	- 172	- 794	5	- 961
-	-	- 249	- 794	5	- 1,038
-	- 654	-	-	-	- 663
-	52	-	-	-	52
-	21	-	-	-	21
2	38	-	-	- 955	- 915
-	-	-	-	2,316	2,316
-	-	-	-	- 875	- 875
- 2	7,712	4,065	- 392	8,665	20,674
- 2	7,712	4,076	- 387	8,649	20,674
-	-	- 11	- 5	16	-
-	-	-	-	- 9	- 9
- 2	7,712	4,065	- 392	8,656	20,665
-	-	-	-	3	3
-	-	- 548	-	548	-
-	-	- 1,788	-	-	- 1,788
-	-	- 162	- 759	-	- 921
-	-	- 2,498	- 759	551	- 2,706
-	36	-	-	-	36
-	-	-	-	-	1,096
- 1	- 42	-	-	-	- 43
-	-	-	-	- 387	- 387
-	-	-	-	- 919	- 919
- 3	7,706	1,567	- 1,151	7,901	17,742

Schedule of industry segment data

for the years ended 31 December

in USD millions

	Non-life Insurance		Life Insurance		Asset Management		Farmers Management Services	
	2001	2000	2001	2000	2001	2000	2001	2000
Direct written premiums and policy fees	21,047	17,387	7,750	7,388	-	-	-	-
Assumed written premiums	2,298	1,903	78	74	-	-	-	-
Gross written premiums and policy fees	23,345	19,290	7,828	7,462	-	-	-	-
Less premiums ceded to reinsurers	- 5,222	- 4,326	- 755	- 498	-	-	-	-
Net written premiums and policy fees	18,123	14,964	7,073	6,964	-	-	-	-
Net change in reserves for unearned premiums	- 1,379	- 729	- 6	- 19	-	-	-	-
Net earned premiums and policy fees	16,744	14,235	7,067	6,945	-	-	-	-
Farmers management fees and other related revenue	-	-	-	-	-	-	1,690	1,589
Asset management fee income	-	-	8	9	1,517	1,650	-	-
Net investment income	1,686	1,722	3,376	3,262	96	45	84	130
Net realized capital gains	521	952	365	1,241	- 7	7	- 40	69
Net unrealized losses on investments	59	-	- 441	- 517	13	-	- 1	-
Gain on disposal of discontinued operations (Converium)	-	-	-	-	-	-	-	-
Other income	511	361	311	270	27	13	-	-
Total revenues	19,521	17,270	10,686	11,210	1,646	1,715	1,733	1,788
Inter segment	144	369	- 409	- 13	- 13	- 26	- 66	- 11
Non-life losses and loss adjustment expenses	- 13,959	- 10,651	- 85	- 115	-	-	-	-
Death and other life insurance benefits	- 132	- 96	- 4,902	- 4,861	-	-	-	-
Increase in future life policyholders' benefits	- 1	- 2	- 1,618	- 1,517	-	-	-	-
Policyholder dividends and participation in profits	- 74	- 96	- 74	- 710	-	-	-	-
Underwriting and policy acquisition costs	- 2,890	- 2,479	- 1,382	- 994	-	-	-	-
Other operating and administrative expenses	- 2,048	- 1,839	- 1,115	- 1,099	- 1,567	- 1,497	- 836	- 797
Interest expense on debt	- 112	- 117	- 165	- 39	- 8	- 11	- 42	- 43
Other interest expense	- 121	- 133	- 561	- 575	-	-	-	-
Amortization of goodwill and intangible assets	- 24	- 24	- 202	- 242	- 102	- 103	- 43	- 43
Total benefits, losses and expenses	- 19,361	- 15,437	- 10,104	- 10,152	- 1,677	- 1,611	- 921	- 883
Operating (loss)/income	160	1,833	582	1,058	- 31	104	812	905
Income tax expense	- 49	- 300	40	- 93	1	- 55	- 311	- 346
Net (loss)/income before minority interests	111	1,533	622	965	- 30	49	501	559
Net income applicable to minority interests	- 9	- 19	- 1	-	1	2	-	-
Net (loss)/income	102	1,514	621	965	- 29	51	501	559

Capital Markets & Banking		Centre		Reinsurance -discontinued		Corporate		Eliminations		Total	
2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
-	-	228	227	150	166	28	26	19	209	29,222	25,403
21	47	959	1,143	2,836	2,475	240	334	- 890	- 969	5,542	5,007
21	47	1,187	1,370	2,986	2,641	268	360	- 871	- 760	34,764	30,410
-	-	- 68	- 211	- 595	- 637	- 146	- 149	870	934	- 5,916	- 4,887
21	47	1,119	1,159	2,391	2,004	122	211	- 1	174	28,848	25,523
7	- 8	- 32	97	- 192	- 110	4	6	-	-	- 1,598	- 763
28	39	1,087	1,256	2,199	1,894	126	217	- 1	174	27,250	24,760
-	-	-	-	-	-	-	-	-	-	1,690	1,589
44	36	-	-	-	-	1	2	- 153	- 149	1,417	1,548
318	394	449	464	267	279	239	217	- 519	- 355	5,996	6,158
198	189	113	66	- 77	33	- 252	244	-	- 1	821	2,800
330	76	- 2	-	- 2	- 2	- 129	- 38	-	-	- 173	- 481
-	-	-	-	298	-	-	-	-	-	298	-
100	79	149	58	81	22	374	326	- 375	- 92	1,178	1,037
1,018	813	1,796	1,844	2,766	2,226	359	968	- 1,048	- 423	38,477	37,411
- 26	- 34	- 69	- 96	88	- 56	- 697	- 556	1,048	423	-	-
- 13	- 34	- 652	- 818	- 2,620	- 1,528	- 147	- 315	74	128	- 17,402	- 13,333
-	-	- 401	- 209	- 9	- 10	- 10	- 69	- 78	- 137	- 5,532	- 5,382
-	-	71	23	- 5	13	-	1	5	3	- 1,548	- 1,479
-	-	- 140	- 230	6	14	- 89	- 2	-	-	- 371	- 1,024
- 10	- 11	- 177	- 160	- 468	- 467	- 16	- 36	-	- 1	- 4,943	- 4,148
- 497	- 390	- 270	- 195	- 275	- 195	- 725	- 991	394	- 49	- 6,939	- 7,052
- 336	- 215	- 33	- 26	- 13	- 9	- 716	- 605	644	469	- 781	- 596
- 9	- 6	- 95	- 82	- 4	- 2	- 2	- 15	8	9	- 784	- 804
-	-	- 6	- 7	- 5	- 2	- 11	- 22	1	1	- 392	- 442
- 865	- 656	- 1,703	- 1,704	- 3,393	- 2,186	- 1,716	- 2,054	1,048	423	- 38,692	- 34,260
153	157	93	140	- 627	40	- 1,357	- 1,086	-	-	- 215	3,151
14	- 29	8	- 9	167	63	46	35	-	-	- 84	- 734
167	128	101	131	- 460	103	- 1,311	- 1,051	-	-	- 299	2,417
- 78	- 48	-	-	-	-	- 1	- 36	-	-	- 88	- 101
89	80	101	131	- 460	103	- 1,312	- 1,087	-	-	- 387	2,316

Schedule of industry segment data

for the years ended 31 December

in USD millions

	Non-life Insurance		Life Insurance		Asset Management		Farmers Management Services	
	2001	2000	2001	2000	2001	2000	2001	2000
Fixed maturities	17,744	18,712	42,817	43,335	46	48	82	302
Equity securities	6,245	6,910	12,067	13,983	176	195	168	242
Investments held by investment companies	–	–	53	–	–	–	50	–
Real estate	1,431	1,622	3,468	3,722	170	109	117	87
Short-term investments and cash and cash equivalents	3,537	2,030	3,595	3,497	490	495	225	154
Other	4,268	5,743	6,996	6,862	14	5	953	801
Total investments	33,225	35,017	68,996	71,399	896	852	1,595	1,586
Reinsurance assets	14,497	11,364	1,489	1,525	–	–	314	139
Deferred policy acquisition costs	1,351	1,127	7,887	7,737	–	–	–	–
Intangible assets	316	168	1,543	1,859	1,475	1,551	1,154	1,196
Deferred income taxes	882	1,308	1,216	2,278	20	103	126	114
Other segment assets	9,210	8,276	57,456	58,286	2,032	2,223	732	736
Total segment assets after consolidation of investments in affiliates	59,481	57,260	138,587	143,084	4,423	4,729	3,921	3,771
Underwriting reserves, gross	40,279	35,580	62,881	63,182	–	–	–	–
Deferred income taxes	1,103	1,888	2,884	4,547	263	356	617	647
Debt related to capital markets & banking and risk financing activities	–	–	–	–	–	–	–	–
Senior debt	1,698	3,003	529	1,987	305	115	–	–
Subordinated debt	–	–	–	–	–	–	500	500
Other segment liabilities	7,326	6,712	62,985	63,340	1,905	1,697	607	459
Total segment liabilities	50,406	47,183	129,279	133,056	2,473	2,168	1,724	1,606
Minority interests:								
Preferred securities	–	–	–	–	–	–	–	–
Other	35	93	13	11	243	299	–	–
Segment equity	9,040	9,984	9,295	10,017	1,707	2,262	2,197	2,165
Years ended 31 December								
Net cash provided by/(used in) operating activities	284	– 2,256	– 1,265	4,509	– 130	197	266	644
Net cash provided by/(used in) investing activities	708	1,787	– 133	– 4,553	20	73	60	850
Net cash provided by/(used in) financing activities	– 1,059	623	1,597	1,133	10	– 54	– 255	– 1,558
Purchases of real estate held for own use, fixed assets, goodwill and intangible assets	402	293	205	439	90	171	79	92
Depreciation of real estate held for own use and fixed assets	166	160	76	73	85	51	69	99
Interest income	1,412	1,550	2,990	2,947	86	23	75	122

Capital Markets & Banking		Centre		Reinsurance – discontinued		Corporate		Eliminations		Total	
2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
1,737	1,380	6,550	6,756	192	2,414	1,584	1,251	- 1,020	- 948	69,732	73,250
5,966	3,374	509	521	67	689	862	2,233	- 1	- 1	26,059	28,146
74	103	-	-	-	-	975	628	1	1	1,153	732
-	-	72	-	-	15	482	554	1	-	5,741	6,109
1,731	1,746	760	790	552	282	2,074	1,817	- 4,330	- 3,724	8,634	7,087
3,629	2,466	410	510	2,274	1,522	1,717	1,959	- 7,932	- 9,713	12,329	10,155
13,137	9,069	8,301	8,577	3,085	4,922	7,694	8,442	- 13,281	- 14,385	123,648	125,479
-	-	1,366	2,893	3,387	2,287	711	422	- 3,452	- 4,717	18,312	13,913
-	3	132	108	8	185	6	33	-	-	9,384	9,193
-	-	84	89	-	39	88	172	- 1	-	4,659	5,074
136	66	278	331	30	167	506	544	1	-	3,195	4,911
471	245	377	491	1,792	1,299	2,479	3,466	- 2,142	- 2,240	72,407	72,782
13,744	9,383	10,538	12,489	8,302	8,899	11,484	13,079	- 18,875	- 21,342	231,605	231,352
3	39	4,854	5,479	5,791	6,336	795	2,745	- 3,184	- 3,893	111,419	109,468
- 10	51	165	273	10	143	137	235	2	- 1	5,171	8,139
6,111	3,583	271	76	-	-	-	-	- 1	-	6,381	3,659
-	-	435	348	89	320	13,372	12,861	- 13,241	- 14,364	3,187	4,270
-	-	-	-	-	-	1,000	1,031	-	-	1,500	1,531
4,636	3,170	4,289	5,763	2,279	883	1,651	2,059	- 2,451	- 3,084	83,227	80,999
10,740	6,843	10,014	11,939	8,169	7,682	16,955	18,931	- 18,875	- 21,342	210,885	208,066
2,258	1,818	-	-	-	-	302	302	-	-	2,560	2,120
122	95	-	-	-	3	5	-	-	-	418	501
624	627	524	550	133	1,214	- 5,778	- 6,154	-	-	17,742	20,665
- 589	- 921	- 147	1,472	286	91	- 607	2,482	290	- 2,464	- 1,612	3,754
- 715	- 2,843	- 177	- 1,392	- 1,608	- 137	1,423	- 1,489	859	801	437	- 6,903
1,396	1,811	340	- 27	1,748	106	- 444	2,631	- 85	- 640	3,248	4,025
19	4	27	23	5	79	160	18	-	-	987	1,119
6	4	12	10	12	14	76	54	-	-	502	465
264	364	509	473	208	192	236	200	- 640	- 477	5,140	5,394

Notes to the summary consolidated financial information

1. Basis of preparation

The Group is involved in a wide range of non-life and life insurance, management services, asset management and related businesses, capital markets & banking business and risk financing solutions. The holding company, Zurich Financial Services, is incorporated in Zurich, Switzerland. The Group operates in more than 60 countries and territories worldwide through subsidiaries and branch offices. The consolidated financial statements of the Group have been prepared under the historical cost convention as modified by the revaluation of certain assets and liabilities, in accordance with International Accounting Standards (IAS) and comply with Swiss law. IAS does not contain guidelines governing the accounting treatment of transactions that are specific to insurance products. In such cases, as envisioned in the IAS framework, the provisions embodied in United States generally accepted accounting principles (US GAAP) have been applied.

Segment information

Segment information is presented in two formats. The primary format, as reflected in the Schedule of Industry Segment Data, is based on the operating businesses of the Group and how they are strategically managed to offer different products & services to specific customer groups (as described below). The Group is now reporting two new operating segments, Capital Markets & Banking and Centre, as well as a new Corporate Segment, which includes Group holding and financing companies and Head Office operations.

The secondary format is geographic.

Non-life Insurance: Non-life insurance operations write substantially all lines of property and casualty business.

Life Insurance: Life insurance operations offer a broad line of life insurance, annuity and investment-type policies to individuals and groups.

Asset Management: Asset management operations provide diversified financial services for third parties and Group companies, such as institutional funds management, retail mutual funds, short-term cash management and financing, and other related services.

Farmers Management Services: Farmers Group, Inc. (Farmers), a wholly owned subsidiary of the Group, provides management services to the Farmers Insurance Exchange, Fire Insurance Exchange and Truck Insurance Exchange, their respective subsidiaries, Farmers Texas County Mutual Insurance Company, Foremost County Mutual Insurance Company and Foremost Lloyds of Texas (the Farmers P&C Group Companies). The Group has no ownership interest in the Farmers P&C Group Companies. Farmers receives a fee for its services which is based on the gross earned premiums of the Farmers P&C Group Companies but is otherwise not directly affected by the underwriting results of the Farmers P&C Group Companies.

Capital Markets & Banking: Capital Markets & Banking comprises Zurich Capital Markets, which is the largest operation in this segment, and other businesses engaged in retail and corporate banking and capital markets activities.

Centre: Centre targets corporate customers and provides innovative risk-financing solutions.

Reinsurance – discontinued: In December 2001, the Group exited its third party assumed reinsurance operations, previously managed under the Zurich Re brand name, by way of an initial public offering (IPO) of this business, under the name Converium. The Reinsurance – discontinued segment reflects the results of this discontinued reinsurance business up to the date of the IPO and the results of the run-off of existing liabilities retained by the Group and not transferred to Converium.

Corporate: Corporate includes Group holding and financing companies, Group Head Office operations and strategic and alternative investments, which were previously allocated to Non-Life Insurance.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices.

2. Summary of significant accounting policies

(a) Consolidation principles

The Group's consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Financial Services and its subsidiaries. A subsidiary is an entity in which Zurich Financial Services owns, directly or indirectly, more than 50% 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 effective date of acquisition. The results of subsidiaries that have been sold during the year are included up to the date of disposal. The profit and loss on sale is calculated by reference to the net asset value at the date of disposal, adjusted for purchased goodwill previously written off directly to shareholders' equity prior to 1 January 1995 upon acquisition and cumulative translation adjustments. All significant inter-company balances, profits and transactions are eliminated.

Associates and partnerships where the Group has the ability to exercise significant influence as well as joint ventures where there is joint control are accounted for using the equity method.

Certain partnerships are engaged exclusively in making investments in direct private equity, private equity funds, and hedge funds. In the partnerships, these investments are carried at fair value, with changes in fair value being taken to income. These partnerships are accounted for under the equity method, or are consolidated when the substance of the relationship between the Group and the partnership indicates that the partnership is controlled by the Group.

(b) Non-life insurance operations

Premiums: Upon inception of the contract, premiums are recorded as written and are earned primarily 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, such as insurance policies on seasonal recreational vehicles, premiums are earned 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.

Deferred policy acquisition costs: Acquisition costs, representing commissions, premium taxes and other underwriting expenses, which vary with and are directly related to the production of business, are deferred and amortized over the period in which the related written premiums are earned. Deferred policy acquisition costs are periodically reviewed to determine that they do not exceed recoverable amounts, after considering future investment income.

Losses: Losses and loss adjustment expenses are charged to income as incurred. Unpaid 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 methods of determining such estimates and establishing the resulting reserves are continually reviewed and updated. Resulting adjustments are reflected in current income. The Group does not discount its loss reserves, other than for settled claims with fixed payment terms.

(c) Life insurance operations

Recognition of insurance income and related expenses: 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 recorded as income when due with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from investment type contracts such as universal life, unit-linked and unitized with-profits contracts, are reported as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration and surrenders during the period. Front-end fees are recognized over the estimated life of the contracts. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policyholder contract deposits and interest credited to policyholder deposits.

Deferred policy acquisition costs: The costs of acquiring new business including commissions, underwriting, marketing and policy issue expenses, which vary with and are directly related to the production of new business, are deferred. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period.

Deferred policy acquisition costs for participating traditional life insurance contracts where the contribution principle method applies to the allocation of policyholder dividends are amortized over the expected life of the contracts as a constant percentage of estimated gross margins. Estimated gross margins include anticipated premiums and investment results less benefits and administration expenses, changes in the net level premium reserve and expected policyholder dividends, as appropriate. Estimated gross margins are estimated regularly with deviations of actual results from estimated experience reflected in earnings.

Deferred policy acquisition costs for other traditional life insurance and annuity policies are amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless premium deficiency occurs.

Deferred policy acquisition costs for investment type contracts such as universal life, unit-linked and unitized with-profits contracts are amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realized over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrender less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly and the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of actual results from estimated experience are reflected in earnings.

The impact on the deferred policy acquisition cost asset of the change in unrealized gains or losses on investments is recognized through an offset to unrealized gains or losses at the balance sheet date.

Unamortized deferred policy acquisition costs associated with internally replaced contracts that are, in substance, contract modifications, continue to be deferred and amortized. Costs associated with internally replaced contracts that are, in substance, new contracts, are written off.

Investments backing UK with profits policies and certain Australian life insurance liabilities: Investments backing UK with profits policies and certain Australian life insurance liabilities are held as trading assets and carried at fair value. Movements in the carrying value of these assets are recognized in income to match the offsetting amounts attributable to policyholders.

Future life policyholders' benefits and policyholders' contract deposits: These represent the estimated future policyholder benefit liability for traditional life insurance policies and non unit-linked investment contracts, respectively.

For participating traditional life insurance policies where the contribution principle method applies to the allocation of policyholder dividends, future policy benefit liabilities are calculated using a net level premium method on the basis of actuarial assumptions equal to guaranteed mortality and interest rates.

Future life policyholders' benefits for other traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions as to mortality, persistency, expenses and investment return including a margin for adverse deviation. The assumptions are established at policy issue and remain unchanged except where premium deficiency occurs.

Future life policyholders' benefits include the value of accumulated declared bonuses or dividends that have been vested to policyholders.

Policyholders' contract deposits represent the accumulation of premium received less charges plus declared dividends.

The policyholders' share of unrealized gains or losses which may be paid in the future in respect of assets is included in future life policyholders' benefits offsetting the policyholders' share of the change in unrealized gains and losses during the year.

Separate account (unit-linked) assets and liabilities: These represent funds maintained to meet specific investment objectives of policyholders who bear the investment risk. Investment income and investment gains and losses accrue directly to policyholders. Also the assets of each account are segregated and management believes that they are not subject to claims that arise out of any other business of the company. The assets and liabilities are carried at market value. Deposits, withdrawals, net investment income, and realized and unrealized capital gains and losses are included in the separate account assets and liabilities and are not reflected in the consolidated statement of income. The costs of insurance, policy administration, investment management, surrender charges and certain policyholder taxes assessed against the policyholders' account balances are included in policy fee revenue.

(d) Farmers Management Services

Management fee income: Fee revenue for the provision of management services to the Farmers P&C Group Companies is calculated as a percentage of gross premiums earned by the Farmers P&C Group Companies.

Management expenses: These expenses consist primarily of salaries and employee benefits, property and equipment expenses and other general and administrative expenses.

(e) Asset management operations

Revenue consists principally of investment management fees, distribution fees from mutual funds, commission revenue from the sale of mutual fund shares and transfer agent fees.

Revenues from investment management and distribution fees are based on a contractual fee arrangement applied to assets under management and recognized as earned when the service has been provided.

Transfer agent fees are based on a cost per account and transaction based fees. For mutual funds a component of the transfer agent fee can be a contractual fee arrangement applied to assets under management. Transfer agent fees are recognized when services have been provided per the contract. Commission revenue is recognized on the trade date when the Group's performance obligation is complete and the fees are payable.

Additionally, revenue can be earned from performance fees, which are based upon the achievement of performance levels in excess of predetermined contractual benchmarks. Performance fees are recognized when earned and are payable per the contract.

Commissions and certain operating expenses related to the sale of back-end mutual funds have been deferred. These costs are amortized in relation to the distribution and contingent revenue earned on these mutual funds. The Group periodically reviews and updates its assumptions made in determining projected revenues and amortization periods are adjusted accordingly.

(f) Capital markets & banking operations

Zurich Capital Markets offers hedge fund-based investment vehicles, asset based financing and credit structures, instruments to manage investment risk, customized strategies to structure or manage financial assets, and administrative services for hedge funds and hedge fund investors. Principal transactions include revenues from purchases and sales of securities and financial instruments related to the core financial products offered by Zurich Capital Markets. Financial instruments, other than available-for-sale securities (see 2(i) below), are carried at fair value or amounts that approximate fair value, with related unrealized gains or losses recognized in earnings.

(g) Centre

Centre enters into transactions which are predominantly characterized as insurance or reinsurance transactions and in these cases applies the Group's accounting policies under 2 (b) above. In certain cases, transactions may be characterized as derivative instruments, or may include embedded derivatives. In such cases, Centre follows the Group's accounting policies in 2 (k) below. Such transactions include certain financial guarantee contracts which provide for payment to be made to the insured in circumstances other than when the debtor fails to pay and which are consequently not excluded from the scope of IAS 39, Financial Instruments.

(h) Reinsurance

The Group's insurance subsidiaries cede reinsurance in the normal course of business. Although the Group has discontinued its third party assumed reinsurance business previously managed under the Zurich Re brand name, certain Group insurance companies may assume reinsurance business incidental to their normal business. Such business is not significant to the Group's operations. Centre Solutions continues to offer risk-financing solutions to insurers which may be characterized as reinsurance in accordance with Group accounting policies. Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums, ceded future life policy benefits and funds held under reinsurance treaties. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the consolidated balance sheet unless a right of offset exists.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the ceding company to the reinsurer. Those contracts that do not transfer both risks, referred to in total as insurance risk, are accounted for using the deposit method. A deposit asset or liability is recognized based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the ceding company. Deposits for contracts that transfer only significant underwriting risk are subsequently measured based on the unexpired portion of coverage until a loss is incurred, after which the present value of expected future cash flows under the contract is added to the remaining unexpired portion of coverage. Changes in the deposit amount are recorded in the income statement as an incurred loss. Deposits that transfer only timing risk, or no risk at all, are accounted for using the interest method. Future cash flows are estimated to calculate the effective yield, and revenue and expense are recorded as interest income or expense. The effect of contracts with indeterminate risk is not included in the determination of net income until sufficient information becomes available to reasonably estimate the impact.

(i) Investments

Fixed maturities classified as held-to-maturity are those which the Group has the ability and positive intent to hold to maturity; these investments are carried at amortized cost. Fixed maturities and equity securities which the Group buys with the intention to resell in the near term are classified as trading and are carried at fair value. The remaining fixed maturities and equity securities are classified as available-for-sale; these investments are carried at fair value.

Unrealized gains or losses on investments carried at fair value, except those designated as trading, are recorded in shareholders' equity net of deferred income taxes, certain life policyholder dividends and other policyholder liabilities, certain life deferred acquisition costs and minority interest. Unrealized gains or losses on investments designated as trading are recognized in current period income.

The realized gain or loss on disposal is based on the difference between the proceeds received and the carrying value of the investment plus any unrealized gains or losses of the investment using the specific identification method. The amortization of premium and accretion of discount on available-for-sale and held-to-maturity investments in fixed maturities is computed using the effective interest method and is recorded in current period income. Dividends on equity securities are recorded as revenue on the ex-dividend date, the date that the dividends become payable to the holders of record.

The Group no longer recognizes a financial asset or a portion of a financial asset in its financial statements when it loses control of that asset or portion of that asset.

Real estate held for investment purposes is recorded at fair value. Fair values are determined internally by professionally qualified valuers on an annual basis with reference to current market conditions. Periodically, external valuations are performed. No depreciation is recorded for real estate held for investment. The gain or loss on disposal is based on the difference between the proceeds received and the carrying value of the investment.

Policyholder loans, mortgage loans on real estate, collateral loans and other loans are carried at unpaid principal balances. Impairment of mortgage loans on real estate and collateral loans is generally measured based on the present value of expected future cash flows discounted at the loan's effective interest rate subject to the fair value of the underlying collateral. When a decline in the value of these assets is considered to be other than temporary, a charge is recorded in the consolidated statement of income for the difference between carrying value and estimated net realizable value. Interest income on impaired loans is recognized as cash when received.

Investments held by investment companies reflect investments held by certain consolidated partnerships that are engaged exclusively in making investments in direct private equity, private equity funds and hedge funds. These investments, held within the partnerships, are carried at fair value, with changes in fair value being taken to income.

Short-term and other investments are recorded at cost, which approximates fair value.

Regular way purchases or sales of financial assets are recognized on the trade date.

(j) Recognition and measurement of impaired investments

Quoted available-for-sale securities: The Group's decision to make an impairment provision is based on an objective review of the issuer's current financial position and future prospects and an assessment of the probability that the current market price will recover to former levels. If the Group decides that an asset is impaired, the cumulative net loss previously recognized in equity is removed from equity and recognized in net income for the period.

Non-quoted available-for-sale securities: The Group takes into consideration the issuer's current financial position and future prospects in determining whether an impairment provision is required.

Held-to-maturity securities: If it is possible that the Group will not be able to collect all amounts due, principal and interest, according to the contractual terms of the security, the Group considers that impairment has taken place. The amount of the impairment loss is the difference between the asset's carrying value and the present value of expected future cash flows discounted at the security's original effective interest rate.

(k) Derivative instruments

General: Derivative financial instruments include swaps, futures, forwards and option contracts, all of which derive their value mainly from 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. Derivatives are subject to various risks similar to those related to the underlying financial instruments, including market, credit and liquidity risk.

Financial instruments embedded within contracts are separated from their host contracts and recorded separately at fair value on the balance sheet when the embedded instrument meets the definition of a derivative, its economic characteristics are not closely related to the host contract and the combined instrument is not already recorded at market value.

Premiums paid for derivatives are recorded as an asset on the balance sheet at the date of purchase. Changes in fair value in derivative positions are recorded at fair value in the balance sheet with movements in fair value recorded in income.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the balance sheet as they do not represent the potential for gain or loss associated with such transactions.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in the Notes to the Consolidated Financial Statements.

Interest rate and currency swaps: Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate

swaps involve the net exchange of payments calculated as the difference between the fixed and floating interest payments. Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to loss on both types of swap contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Interest rate futures, forwards and options contracts: Interest rate futures are exchange-traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price. Interest rate forward agreements are OTC where two parties agree on an interest rate and other terms that will become a reference point in determining, in concert with an agreed notional principal amount, a net payment to be made by one party to the other, depending on what rate in fact prevails at a future point in time. Interest rate options, which consist primarily of caps and floors, are interest rate protection instruments that involve the obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current rate and an agreed rate applied to a notional amount. Exposure to loss on all interest rate contracts will increase or decrease over their respective lives as interest rates fluctuate. For interest rate futures and exchange-traded options, the Group's exposure to off-balance sheet credit risk is limited, as these transactions are executed on organized exchanges that assume the obligation of the counterparty and generally require security deposits and daily settlement of margins.

Foreign exchange contracts: Foreign exchange contracts, which include spot, forward and futures contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rate option contracts, except that they are based on currencies, rather than interest rates. Exposure to loss on these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate. For exchange-traded foreign exchange contracts, the Group's exposure to off-balance sheet credit risk is limited, as these transactions are executed on organized exchanges that assume the obligation of counterparties and generally require security deposits and daily settlement of margins.

The Group uses certain of the above derivatives for hedging purposes and others for non-hedging purposes. The accounting treatment for hedging and non-hedging derivatives is discussed below.

Non-hedging derivative instruments: Trading assets and trading liabilities include option premiums paid and received and receivables from and payables to counterparties which relate to unrealized gains and losses on futures, forwards, options and swaps and balances due from and to clearing brokers and exchanges. Futures, forwards and options purchased and written, as well as swaps purchased, are accounted for as contractual commitments on a trade date basis. The instruments are measured at fair value. Realized and unrealized gains and losses are reflected in current period income. Fair values of these instruments are based on closing exchange quotations. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of similar instruments with similar characteristics or discounted cash flows. The Group's trading activities involve the use of derivative financial instruments in the normal course of business. These instruments generally include forwards, futures, options and swaps.

Derivative instruments for hedging: On the date a derivative contract is entered into, the Group designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge); or, (2) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group's criteria for a derivative instrument to be accounted for as a hedge include:

- (a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- (b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- (c) the hedge is effective on an ongoing basis.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in income.

(I) Obligation to repurchase securities

Sales of securities under agreements to repurchase are accounted for as collateralized transactions and are recorded at their contracted repurchase amount plus accrued interest at the balance sheet date. The Group minimizes the credit risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring customer credit exposure and collateral value and generally requiring additional collateral to be deposited with the Group when deemed necessary.

(m) Cash and cash equivalents

Cash amounts represent cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of 90 days or less.

(n) Real estate held for own use and fixed assets

Real estate (buildings) held for own use and fixed assets are carried at cost less accumulated depreciation and any necessary write-downs. The costs of these assets are depreciated principally on a straight-line basis over the following estimated useful economic lives: buildings 25 to 50 years; furniture and fixtures 5 to 10 years; and computer equipment and software 3 to 5 years. Real estate (land) is carried at cost less any necessary write-downs. Maintenance and repair costs are charged to income as incurred; costs incurred for major improvements are capitalized and depreciated. Gains and losses on disposal of fixed assets and real estate held for own use are determined by reference to their carrying amount.

(o) Goodwill, present value of profits of acquired insurance contracts and other intangibles

Goodwill: The Group's acquisitions of other companies are accounted for under the purchase method, whereby the purchase price is allocated to the fair value of assets and liabilities acquired at the date of acquisition with any residual amount allocated to goodwill. Goodwill on acquisitions prior to 1995 has been charged directly against shareholders' equity. Goodwill is amortized using the straight-line method over its estimated economic life. Goodwill is presumed to have a five-year economic life but can be extended to a twenty-year maximum if justifiable. In determining the period of amortization, the Group considers the expected period of benefits to be received from the acquired company which is based on factors such as the type of business, the duration of the underlying insurance contracts, customer relationships and distribution networks.

The present value of profits of acquired insurance contracts is amortized over the expected life of the policies acquired based on a constant percentage of the present value of estimated gross profits (margins) expected to be realized over the premium recognition period, as appropriate.

Other intangibles primarily consist of brand names and are amortized using the straight-line method over their estimated economic life, currently 20 years.

Attorney-in-fact relationships: At the date of the acquisition of Farmers Group, Inc. and its subsidiaries in 1988, a portion of the purchase price was assigned to the attorney-in-fact relationships. The asset representing the attorney-in-fact relationships represents the ability of Farmers Management Services to generate future revenues based on the Group's relationship with the Farmers P&C Group Companies. This carrying value is amortized on a straight-line basis over 40 years. In determining the period of amortization, the Group considered the organizational structure of inter-insurance exchanges, under which subscribers exchange contracts with each other and appoint an attorney-in-fact to provide certain management services. In addition, the Group considered the historical attorney-in-fact relationship between Farmers Group, Inc. and the Farmers P&C Group Companies. The Group does not expect that there will be a materially adverse change in the market demand for Farmers P&C Group Companies' products, nor does the Group expect that its competitors will take actions in the foreseeable future that could adversely affect the Group's estimated economic life of the asset. All economic benefits from the attorney-in-fact relationships can be drawn now and the Group believes that ability to do so will extend over the remaining estimated economic life of the asset.

(p) Income taxes

Taxes on income are recognized in the same period as the revenues and expenses to which they relate.

Deferred income taxes are provided for all 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. Deferred tax assets are recognized to the extent that their recoverability is deemed to be probable. Losses for tax purposes are treated as a deferred tax asset to the extent it is probable that the losses can offset future taxable income and is allowed by the applicable local tax laws and regulations.

Taxes payable by either the holding company or its subsidiaries on distribution to the holding company of the undistributed profits of subsidiaries are recognized as deferred income taxes unless a distribution of those profits is not intended or would not give rise to a tax liability.

Taxes paid by United Kingdom life businesses, in respect of life insurance business, are based on investment income less allowable expenses. To the extent that these taxes exceed the amount that would have been payable in respect of the shareholders' share of taxable profits, it is normal practice for United Kingdom life businesses to recover this tax from policyholders. While in the Group's case the relevant company has the contractual right to charge policyholders for the taxes attributable to their share of investment income less expenses, the obligation to pay the tax authority rests with the company and therefore, the full amount of tax including that charged to policyholders is accounted for as an income tax. Income tax expense therefore includes an element attributable to policyholders. In addition, deferred tax on unrealized gains on separate account assets related to certain United Kingdom unit-linked policies is included as income tax expense and an accrual for future policy fees to recover the tax charge is included in gross written premiums and policy fee revenue.

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.

(q) Employee benefits

The operating companies in the Group provide employee retirement benefits under principally two types of arrangements: defined benefit plans providing specified benefits and defined contribution plans. The assets of these plans are generally held separately from the Group's general assets in trustee-administered funds. Defined benefit plan obligations and contributions are determined periodically by qualified actuaries using the projected unit credit method. The Group's expense related to these plans is accrued over the employees' service periods based upon the actuarially determined cost for the period. Actuarial gains and losses are normally spread over the average remaining service lives of employees. Contributions to the defined contribution pension plans are charged to the consolidated statement of income as they become due.

Post-retirement benefits are also provided for certain employees and are primarily funded internally. The cost of such benefits is accrued over the service period of the employee based upon the actuarially determined cost for the period.

The Group recognizes the expense related to incentive plans over the relevant performance period. With regard to share based compensation, the Group uses a fair value based method of accounting. Expense recorded for share based compensation takes into account the fair value of the shares or options to be awarded at the date of grant less any amount paid by the employee.

(r) Debt

Debt is recognized at amortized cost, which in most cases is equal to par value. Interest on debt is recognized as a charge to income when incurred. The accretion of any discount or the amortization of any premium on the issue of debt is recognized in income using the effective interest rate method.

Both convertible debt and debt with stock purchase warrants include a liability component and an equity component for the right to convert the liability into Zurich Financial Services' shares. At the time of issuance, the equity component is recorded as an adjustment to shareholders' equity. The difference between the carrying amount of the liability and its nominal value is amortized until maturity as a component of interest expense.

(s) Treasury stock

Treasury stock is deducted from equity at its nominal value of CHF 10 per share. Differences between this amount and the amount paid for acquiring, or received for disposing of treasury shares, are recorded in additional paid-in capital in shareholders' equity.

(t) Interest

Interest expense is recognised when incurred. Other interest expense includes interest credited to policy-holders.

(u) Reclassifications

The 2000 geographical and industry segments have been reclassified to conform to the 2001 Group presentation due to more appropriate classification of business units from one segment to another.

(v) Foreign currency translation and transactions

Foreign currency translation: In view of the international nature of the Group and the fact that more of its business is transacted in US dollars (USD) than in any other currency, the consolidated financial information is reported in US dollars. Assets and liabilities of all branches and subsidiaries (including the holding company) expressed in currencies other than US dollars are translated at the end-of-period exchange rates, while statements of income are translated at average exchange rates for the period. The resulting translation differences are recorded directly in shareholders' equity as cumulative translation adjustments.

Foreign currency transactions: Outstanding balances in foreign currencies arising from foreign currency transactions are translated at end-of-period exchange rates. Revenues and expenses are translated using the exchange rate at the date of the transaction or a weighted average rate. The resulting exchange differences are recorded in the consolidated statement of income.

(w) Use of estimates

The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Therefore, actual results could differ from those estimates.

3. Implementation of new accounting standards

(a) IAS 39 "Financial Instruments: Recognition and Measurement"

IAS 39, "Financial Instruments: Recognition and Measurement", was implemented as of 1 January 2001 and requires all financial assets and financial liabilities to be recognized on the balance sheet, including derivatives. As a result of implementing this new standard, all freestanding derivatives are recorded at fair value on the balance sheet. The impact of the introduction of IAS 39 was less than USD 1 million to the Group's statement of income and balance sheet.

In 2000, certain interest rate and foreign currency hedge exposures were accounted for on an accrual basis when they were designated to hedge a specific asset or liability. All other derivative instruments were recorded at fair value in the balance sheet with movements in fair value recorded in income.

(b) IAS 40 "Investment Property"

IAS 40, "Investment Property", was implemented as of 1 January 2001. As a result of this new standard, changes in the fair value of investment property are now reflected in the income statement rather than in shareholder's equity. In accordance with the permitted treatment in IAS 40, the comparative financial statements have not been restated to conform with the changed policy. The introduction of IAS 40 has resulted in the reclassification of unrealized gains on investment properties of USD 548 million, net of deferred income tax and policyholder dividends, as at 1 January 2001, from net unrealized gains on investment to retained earnings. In accordance with IAS 40, changes in the fair value of investment property of USD 28 million were recorded as an unrealised gain in the income statement for the year ended 31 December 2001. Property with a carrying amount of USD 107 million, previously classified as real estate held for investment was reclassified as real estate held for own use, to conform with the new requirements of IAS 40.

(c) New accounting pronouncements

The International Accounting Standards Board (IASB) has issued no new or revised standards that are required to be adopted by the Group in the future.

4. Reclassifications and restatement of 2000 financial statements

The Group's financial statements for the year ended 31 December 2000 reflect differences from the amount the Group previously published. The following adjustments were made:

- To move certain unrealized gains and losses from shareholders' equity to the statement of income. The net effect on previously reported net income was a reduction of USD 7 million in 2000.
- To restate our asset management segment. The net effect on previously reported net income was a reduction of USD 5 million in 2000.
- To reclassify certain debt in our Centre segment from senior debt to debt related to capital markets & banking and risk financing activities.
- In addition, certain balance sheet items have been reclassified, the most significant being reclassifications of investments held by investment companies to a separate line item and the reclassification of asset balances related to non-reinsurance business from reinsurance assets to other assets. These reclassifications have no effect on previously reported net income or shareholder's equity.

Table 4.1
Reclassification and restatement of 2000 financial statements
Income statement – key figures

in USD millions	Original	2000 Restated
Asset management fee income	1,557	1,548
Realized capital gains and unrealized gains on investments	2,330	2,319
Other operating and administrative expenses ¹	– 7,054	– 7,052
Operating income	3,169	3,151
Income tax expense	– 739	– 734
Net income before minority interest	2,430	2,417
Minority interest	– 102	– 101
Net income	2,328	2,316

¹ Including USD 788 million Farmers' Management expenses and related expenses disclosed separately in 2000 but included in the amount of other operating and administration expenses for 2001.

Balance sheet – key figures	Original	2000 Restated
Equity securities		
Available for sale	20,641	20,538
Trading	8,237	7,608
Investments held by investment companies	–	732
Cash and cash equivalents	5,278	5,267
Reinsurance assets	14,905	13,913
Other assets	2,364	3,356
Total assets	231,363	231,352
Other insurance reserves	2,702	2,870
Accrued expenses	2,599	2,592
Debt related to capital markets & banking and risk financing activities	3,583	3,659
Senior debt	4,346	4,270
Other liabilities	10,812	10,642
Total liabilities	208,075	208,066
Minority interests	2,614	2,621
Net unrealized gains on investments	4,076	4,065
Cumulative translation adjustment	– 387	– 392
Retained earnings	8,649	8,656
Total shareholders' equity	20,674	20,665

5. Changes in scope of consolidation, businesses acquired or disposed of

Acquisitions and disposals in 2001

On 22 March 2001 the Board of Directors announced its intention to divest substantially all of its third party assumed reinsurance business historically operated under the "Zurich Re" brand name. These operations were restructured into a new group under a newly formed holding company, Converium Holding AG ("Converium"), wholly owned by Zurich Financial Services. On 11 December 2001, the Group disposed of its holdings in Converium by way of an Initial Public Offering (IPO) on the SWX Swiss Exchange and the New York Stock Exchange. Further details of the Converium transaction are included in Note 6., "Discontinuance of third party assumed reinsurance and the disposal of Converium".

Other changes in scope of consolidation in 2001, businesses acquired or disposed of

On 28 August 2001 the Group completed the purchase of the Neckura Group (Neckura) of insurance companies in Germany from Nationwide Mutual Insurance Company. Neckura had a premium volume in 2000 of DEM 430 million and has 750 employees. The cost of the acquisition was Euro 194 million paid in cash. The balance sheet of Neckura included USD 12 million in cash and cash equivalents at the date of acquisition.

Transaction with ING Canada

On 17 December 2001, the Group entered into an agreement with ING Canada, the substance of which is as follows:

The Group transferred all of its Canadian Personal Lines business to ING Canada as at 31 December 2001 and received a commission for the renewal rights associated with this business. As a result, the following balances were transferred to ING Canada and are consequently excluded from these financial statements:

Assets

in USD millions

Cash and investments	324
Policy receivables	95
Deferred acquisition costs	23
Total assets	442
Liabilities	
Unearned premium reserve	160
Loss and loss adjustment expenses	293
Total liabilities	453

Under the terms of the agreement, the Group will pay the balance of USD 11 million due to ING Canada on 29 March 2002. This amount has been accrued at 31 December 2001.

Effective 1 February 2002, the Group sold its renewal rights for its Canadian Small Business and Mid Market Commercial business to ING Canada and received a commission.

The commission received for the renewal rights of all these lines of business, net of applicable expenses, was approximately USD 46 million and is included in the statement of income.

Effective 1 February 2002, the Group purchased the renewal rights for its ING Canada's Large Commercial and Corporate Lines of business and paid a commission of approximately USD 15 million, which is recorded as an intangible asset.

Under the terms of the agreement with ING Canada, the Group may be responsible to indemnify ING Canada depending on the performance of the business transferred/renewed. No provision has been made in these financial statements as any future amounts payable are not determinable at this time and in management's opinion are not likely to occur.

Acquisitions and disposals in 2000

There were no significant acquisitions or disposals in 2000.

Other changes in scope of consolidation in 2000

Capital Z Investments, L.P. Bermuda (CZI), a partnership in which Zurich Financial Services holds 99.5% of the limited partnership interest was classified as an investment in associate in 1999. CZI was fully consolidated with effect from 1 January 2000. CZI makes investments in direct private equity funds, emerging markets and hedge funds.

6. Discontinuance of third party assumed reinsurance and the disposal of Converium

As noted in Note 5. above, the Group divested substantially all of its third party assumed reinsurance business historically operated under the "Zurich Re" brand name.

Formation transactions

Converium commenced writing business under its own name on 1 October 2001 and has written all third party assumed reinsurance renewal business from that date. The transactions relating to the formation of Converium consisted principally of the transfer to Converium of substantially all of the business conducted under the Zurich Re brand name, the transfer of the Group's reinsurance entities to Converium (including Zürich Rückversicherung (Köln) AG, now renamed Converium Rückversicherung (Deutschland) AG and Zurich Reinsurance (North America) Inc., now renamed Converium Reinsurance (North America), Inc.), the transfer of certain business from those subsidiaries to Group entities and the contribution of assets including cash, real estate, marketable securities and participations, by Zurich Financial Services to Converium.

As a result of these formation transactions Converium had total shareholders' equity of approximately USD 1.65 billion as of 1 October, 2001. Shareholders' equity at the date of disposal was USD 1.56 billion.

Historically, a number of the Group's business units wrote business on the balance sheets of Zurich Re North America and Zurich Re Cologne, the remaining risks of which have not been assumed by Converium and which have been retained by the Group. This business has been either novated or reinsured to Group entities that will continue to be responsible for the run-off of this business.

Transfer of the Converium Zurich Business

The transfer of Zurich Re's Zurich business to Converium has been effected by the means of quota share retrocession agreements (collectively called "Quota Share Retrocession Agreement") with Converium. The covered business consists of substantially all of the third party assumed reinsurance business historically written under the "Zurich Re" brand name, which has an inception or renewal date on or after 1 January, 1987.

Premiums paid under these agreements will be on a "funds withheld" basis, whereby the premium is not immediately paid, but is rather retained by the Group and credited to a funds withheld account which is recognized as a liability in the Group's financial statements. This liability amounted to USD 1.6 billion at 31 December 2001.

Converium will continue to administer the transferred business on behalf of the Group, which remains liable to the original cedants of the business. Additionally, Converium will manage third party retrocessions related to the business transferred. Converium will bear the credit risk for uncollectible reinsurance balances. Converium will have a broad right of offset under the Quota Share Retrocession Agreement so that reinsurance balances owed by Converium to the Group may be offset against the funds withheld liability account directly.

Converium is entitled to request cash advances from the Group if it has eligible losses from a single event or series of related events not relating to the business covered by the Quota Share Retrocession Agreement and exceeding USD 25 million. The amount Converium may borrow as a result of any one event or series of related events is limited to the lesser of USD 90 million, or its actual losses from the event. Converium is entitled to request multiple advances; however, the aggregate amount it may borrow at any one time is limited to the following amounts during the periods named, and may never be in excess of the Funds Withheld Asset balance:

Period

in USD millions

Current to 30 June, 2002	180
1 July 2002 to 30 September, 2002	165
1 October, 2002 to 31 December, 2002	150
1 January, 2003 to 31 March, 2003	135
1 April, 2003 to 30 June, 2003	120
1 July, 2003 to 30 September, 2003	105

Interest on these advances would accrue at a variable annual rate equal to prevailing LIBOR plus 0.50% and would be payable monthly. Converium would be required to repay any advance at the latest on the first anniversary of its receipt.

Assumption of USD 200 Million Public Notes

On 20 October 1993, Zurich Reinsurance Centre Holdings, Inc., or ZRCH, issued USD 200 million principal amount of 7½% Senior Notes, due 15 October 2023. These notes are general unsecured obligations of ZRCH and rank on parity with all other unsecured and unsubordinated indebtedness of ZRCH. Converium Holding U.S. has assumed all of the rights and obligations of ZRCH under the notes indenture.

Continuing Arrangements between Converium and the Group

Reinsurance arrangements: As part of the formation transactions, the Group has provided Converium with coverage for certain exposures. The Group has provided Converium with coverage for all net losses in excess of USD 59 million, including non-performance of the retrocessionaire, related to Amerisafe business ceded to the Uncover pool.

11 September Coverage: The Group has agreed to provide coverage to Converium which caps Converium net exposure for losses and loss adjustments expenses arising out of the 11 September terrorist attacks in the United States at USD 289 million. As part of this coverage, the Group has agreed to take responsibility for the non-performance of Converium's retrocessionaires with regard to losses arising out of the 11 September attacks (beyond the limit of USD 289 million). The Group has recorded losses from the 11 September terrorist attacks of USD 706 million net of reinsurance and tax of which USD 424 million are recognised in our Reinsurance – discontinued segment.

Other agreements: During 2000, Converium entered into a significant modified co-insurance agreement to assume certain assets and liabilities of Zurich International, Bermuda Branch. The quota share on these deposits and deposit liabilities amount to USD 410 million each. The contract can be cancelled and withdrawn after five years.

In June 2001, Zurich Insurance Company (ZIC) entered into the Trinom transaction, which provides ZIC with specific high limit catastrophe cover on business generated by Converium entities (formerly Zurich Re business). As part of the transactions leading to the Converium IPO, ZIC and Converium have entered into a reinsurance agreement, which provides for Converium to receive the reinsurance protection provided by the Trinom transaction in exchange for paying reinsurance premiums to ZIC in an amount equal to the payments due to Trinom. The reinsurance agreement was effective as of 18 June, 2001, and will remain in effect until the underlying liabilities have been extinguished.

Run-off Services and Management Agreement: Converium AG and the Group have entered into a Run-off Services and Management Agreement pursuant to which Converium shall provide certain administrative services to the Group.

Profit on disposal of Converium

The Group sold 40,000,000 shares in Converium Holding AG as a result of the IPO at a price of CHF 82 per share or USD 24.59 per American Depositary Share giving gross cash proceeds of USD 1,968 million. Of these cash proceeds, USD 246 million were received in January 2002 following the completion of the IPO process through the underwriters' exercise of an over-allotment option. The proceeds received in 2002 are recorded as other receivables at 31 December 2001. The Group's total profit on disposal, after costs related to the sale of USD 111 million, was USD 298 million. The costs related to the sale comprised underwriters' commissions, fees payable to advisers, registration and other regulatory administrative fees, and travel, publicity and other costs of the stock exchange listings.

Table 6.1

Profit on disposal of Converium in USD millions

	2001
Consideration received for sale	1,968
Less: net assets disposed of	– 1,559
	409
Costs related to the disposal	– 111
Profit on disposal	298
	At 11 December 2001
Net assets disposed of consisted of:	
Investments other than cash and cash equivalents	4,912
Cash and cash equivalents	420
Other assets	2,446
Loss reserves	– 5,123
Debt	– 197
Other liabilities	– 899
Net assets at 11 December 2001	1,559

The Reinsurance – discontinued segment's results include the results of Converium for the year to 11 December 2001 and the results of the run-off of certain liabilities retained by the Group as a result of the restructuring of Zurich Re's operations into Converium. These liabilities consist mainly of the run-off of business written prior to 1 January 1987 and the run-off of certain other transactions, which were not transferred to Converium. Key figures in respect of the Reinsurance – discontinued segment's results for the year ended 31 December 2001 are shown below:

Table 6.2

Key figures – Reinsurance – discontinued segment in USD millions

	Converium		Other		Total	
	2001	2000	2001	2000	2001	2000
Gross written premiums and policy fees	2,109	2,566	877	75	2,986	2,641
Net earned premiums and policy fees	1,733	1,862	466	32	2,199	1,894
Investment result	159	256	29	54	188	310
Gain on disposal of Converium	298	–	–	–	298	–
Total revenues	2,345	2,158	421	68	2,766	2,226
Non-life losses and loss adjustment expenses	– 1,897	– 1,496	– 723	– 32	– 2,620	– 1,528
Total benefits, losses and expenses	– 2,602	– 2,223	– 791	37	– 3,393	– 2,186
Net (loss)/income	– 132	8	– 328	95	– 460	103
Net (loss)/income before gain on disposal	– 430	8	– 328	95	– 758	103

7. Underwriting reserves

Table 7.1 in USD millions	Non-life Insurance		Life Insurance		Farmers		Capital Markets & Banking		Centre		Reinsurance – discontinued	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Gross												
Reserves for losses and loss adjustment expenses	30,939	27,515	353	519	–	–	3	31	2,612	3,128	5,222	5,342
Reserves for unearned premium reserves	8,651	7,410	216	248	–	–	–	8	402	389	577	836
Future life policyholders' benefits	55	57	45,131	44,421	–	–	–	–	1,840	1,962	–	161
Policyholders' contract deposits and other funds net	634	598	17,181	17,994	–	–	–	–	–	–	– 8	– 3
Total underwriting reserves	40,279	35,580	62,881	63,182	–	–	3	39	4,854	5,479	5,791	6,336
Ceded												
Reserves for losses and loss adjustment expenses	12,048	9,170	110	106	–	–	–	–	247	375	3,251	1,447
Reserves for unearned premium reserves	1,587	1,292	39	40	–	–	–	–	24	62	495	67
Future life policyholders' benefits	–	–	851	879	149	63	–	–	189	1,402	–	20
Policyholders' contract deposits and other funds net	4	3	279	306	165	76	–	–	–	–	– 8	– 3
Total ceded reserves	13,639	10,465	1,279	1,331	314	139	–	–	460	1,839	3,738	1,531
Net												
Reserves for losses and loss adjustment expenses	18,891	18,345	243	413	–	–	3	31	2,365	2,753	1,971	3,895
Reserves for unearned premium reserves	7,064	6,118	177	208	–	–	–	8	378	327	82	769
Future life policyholders' benefits	55	57	44,280	43,542	– 149	– 63	–	–	1,651	560	–	141
Policyholders' contract deposits and other funds net	630	595	16,902	17,688	– 165	– 76	–	–	–	–	–	–
Net underwriting reserves	26,640	25,115	61,602	61,851	– 314	– 139	3	39	4,394	3,640	2,053	4,805

Table 7.1 (continued)
in USD millions

	Corporate		Eliminations		Total	
	2001	2000	2001	2000	2001	2000
Gross						
Reserves for losses and loss adjustment expenses	457	970	– 2,365	– 1,769	37,221	35,736
Reserves for unearned premium reserves	32	67	– 234	– 292	9,644	8,666
Future life policyholders' benefits	306	1,704	– 422	– 1,755	46,910	46,550
Policyholders' contract deposits and other funds net	–	4	– 163	– 77	17,644	18,516
Total underwriting reserves	795	2,745	– 3,184	– 3,893	111,419	109,468
Ceded						
Reserves for losses and loss adjustment expenses	184	208	– 2,235	– 2,638	13,605	8,668
Reserves for unearned premium reserves	18	14	– 234	– 292	1,929	1,183
Future life policyholders' benefits	144	136	– 434	– 1,544	899	956
Policyholders' contract deposits and other funds net	–	–	– 164	– 74	276	308
Total underwriting reserves	346	358	– 3,067	– 4,548	16,709	11,115
Net						
Reserves for losses and loss adjustment expenses	273	762	– 130	869	23,616	27,068
Reserves for unearned premium reserves	14	53	–	–	7,715	7,483
Future life policyholders' benefits	162	1,568	12	– 211	46,011	45,594
Policyholders' contract deposits and other funds net	–	4	1	– 3	17,368	18,208
Total underwriting reserves	449	2,387	– 117	655	94,710	98,353

8. Reserves for losses and loss adjustment expenses

Significant delays occur in the notification 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 to the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Where applicable, reserves have been discounted using average interest rates of 3.1% for 2001 and 3.6% for 2000, which has reduced reserves by USD 245 million and USD 330 million at 31 December 2001 and 2000, respectively. In addition, deferred charges relating to retrospective reinsurance assumed and structured settlements totaling USD 293 million and USD 208 million at 31 December 2001 and 2000, respectively, have been deducted from reserves for losses and loss adjustment expenses. Reserves in respect of benefits payable under certain life insurance contracts have been reclassified to future life policyholders' benefits.

Table 8.1

Reserves for losses and loss adjustment expenses

in USD millions

	2001	2000
At 1 January		
Gross reserves for losses and loss adjustment expenses	35,736	37,904
Reinsurance recoverable	- 8,668	- 7,161
Net reserves for losses and loss adjustment expenses	27,068	30,743
Losses and loss adjustment expenses incurred		
Current year	16,483	13,038
Prior years	919	295
Total	17,402	13,333
Losses and loss adjustment expenses paid		
Current year	- 6,130	- 5,357
Prior years	- 9,322	- 9,879
Total	- 15,452	- 15,236
Acquisitions and disposals of companies and businesses	- 4,165	-
Reclassification to future life policyholders' benefits	- 124	- 447
Foreign currency translation effects	- 1,113	- 1,325
At 31 December		
Net reserves for losses and loss adjustment expenses	23,616	27,068
Reinsurance recoverable	13,605	8,668
Gross reserves for losses and loss adjustment expenses	37,221	35,736

Asbestos and environmental claims

Management has considered environmental and latent injury claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Group continues to be advised of claims asserting injuries from toxic waste, hazardous materials and other environmental pollutants and alleged damages to cover the clean-up costs of hazardous waste dumpsites 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, may cause the actual loss development to exhibit more variation than the remainder of the Group's book of business. Such claims cannot be estimated with traditional reserving techniques and, accordingly, the uncertainty with respect to the ultimate cost of these types of claims has been greater than the uncertainty relating to standard lines of business. The uncertainties arise out of changes or potential changes in various laws or the interpretation of laws. While the Group believes that it has made adequate provision for these claims, it is possible that future adverse development could have a material effect on the Group's results of operations, cash flows and financial position. At 31 December 2001 and 2000, the net reserve amounts related to these claims included above were USD 2,281 million and USD 2,036 million, respectively.

Table 8.2
Reserves for losses and loss adjustment expenses for asbestos and environmental claims
 in USD millions

	2001		2000	
	Gross	Net	Gross	Net
Asbestos				
At 1 January	1,869	1,283	2,040	1,531
Losses and loss adjustment expenses incurred	461	328	29	4
Losses and loss adjustment expenses paid	- 105	12	- 84	- 20
Commutations and settlements	- 96	50	- 62	- 179
Foreign currency translation effects	- 21	- 20	- 54	- 53
At 31 December	2,108	1,653	1,869	1,283
Environmental				
At 1 January	1,257	753	1,527	1,279
Losses and loss adjustment expenses incurred	- 123	- 69	3	- 38
Losses and loss adjustment expenses paid	- 88	- 64	- 116	- 92
Commutations and settlements	- 224	20	- 154	- 393
Foreign currency translation effects	- 12	- 12	- 3	- 3
At 31 December	810	628	1,257	753
Combined				
At 1 January	3,126	2,036	3,567	2,810
Losses and loss adjustment expenses incurred	338	259	32	- 34
Losses and loss adjustment expenses paid	- 193	- 52	- 200	- 112
Commutations and settlements	- 320	70	- 216	- 572
Foreign currency translation effects	- 33	- 32	- 57	- 56
At 31 December	2,918	2,281	3,126	2,036

The 2000 reserves for loss and loss adjustment expenses for environmental claims as previously published included USD 216 million gross, USD 85 million net, of non-environmental reserves. The 2000 information has therefore been adjusted to exclude those reserves from this table.



Proforma Group income statement – operations disposed of and retained

for the years ended 31 December

in USD millions

Key figures	Total consolidated Group		Operations sold – Converium		Asset Management operations to be sold*		Operations to be retained	
	2001	2000	2001	2000	2001	2000	2001	2000>
Gross written premiums and policy fees	34,764	30,410	2,109	2,566	—	—	32,655	27,844
Net earned premiums and policy fees	27,250	24,760	1,733	1,862	—	—	25,517	22,898
Asset management fee income	1,417	1,548	—	—	1,237	1,378	180	170
Investment result	6,644	8,477	159	256	49	44	6,436	8,177
Gain on disposal of Converium	298	—	298	—	—	—	—	—
Total revenues	38,477	37,411	2,345	2,158	1,296	1,431	34,836	33,822
Non-life losses and loss adjustment expenses	- 17,402	- 13,333	- 1,897	- 1,496	—	—	- 15,505	- 11,837
Other operating and administrative expenses	- 6,939	- 7,052	- 277	- 197	- 1,292	- 1,279	- 5,370	- 5,576
Total benefits, losses and expenses	- 38,692	- 34,260	- 2,602	- 2,223	- 1,394	- 1,386	- 34,696	- 30,651
Net (loss)/income	- 387	2,316	- 132	8	- 79	12	- 176	2,296
Net (loss)/income before gain on disposal of Converium			- 430	8				

*Includes Zurich Scudder investments (excluding the Threadneedle businesses) and the Group's asset management operations in Germany and Italy.

The above table shows the proforma effect of the disposal of Converium and the asset management operations to be sold to Deutsche Bank on key line items in the Group's consolidated statement of income for the years ended 31 December 2001 and 2000.

Statistical data per region

for the years ended 31 December

in USD millions

	N America Corporate		N America Consumer		Continental Europe	
	2001	2000	2001	2000	2001	2000
Non-life Insurance						
Gross written premiums and policy fees	10,981	8,135	400	1,000	6,004	5,554
Net earned premium and policy fees	6,131	4,458	400	1,000	4,919	4,604
Net losses incurred and insurance benefits	- 5,283	- 3,526	- 282	- 687	- 3,894	- 3,449
Policyholder dividends and participation in profits	- 13	- 7	-	-	- 58	- 88
Total net technical expenses	- 1,519	- 1,254	- 108	- 288	- 1,390	- 1,316
Net underwriting result	- 684	- 329	10	25	- 423	- 249
Net investment income	575	615	37	31	592	504
Net realized capital gains	146	165	- 11	21	135	502
Net unrealized gains on investments	-	-	-	-	51	-
Net non-technical result	- 23	- 48	-	-	- 84	- 143
Amortization of goodwill and other intangible assets	- 9	- 3	-	-	- 12	- 17
Operating income	5	400	36	77	259	597
Income tax expense	74	- 20	- 11	- 25	- 105	- 141
Net income before minority interests	79	380	25	52	154	456
Net income applicable to minority interests	-	-	-	-	- 1	-
Net income	79	380	25	52	153	456

Ratios, as % of net earned premiums and policy fees:

Net loss ratio	86.2%	79.1%	70.5%	68.7%	79.2%	74.9%
Policyholder dividends and participation in profits ratio	0.2%	0.2%	-	-	1.2%	1.9%
Net expense ratio	24.8%	28.1%	27.1%	28.8%	28.2%	28.6%
Net combined ratio	111.2%	107.4%	97.6%	97.5%	108.6%	105.4%

Gross written premiums and policy fees, of which:

Accident and health	200	154	-	-	767	749
Automobile	1,836	1,489	-	-	2,623	2,323
Fire and other property	2,049	1,461	-	-	1,167	1,191
General liability	3,043	2,237	-	-	680	665
Other non-life lines	3,004	2,238	-	-	518	413
Assumed reinsurance	849	556	400	1,000	249	213
Total	10,981	8,135	400	1,000	6,004	5,554

Investments, of which:	10,973	10,447	764	753	11,260	12,179
Fixed maturities	68.7%	75.6%	89.4%	86.6%	50.8%	48.3%
Equity securities	14.6%	15.5%	10.1%	10.8%	20.9%	25.8%
Real estate	0.1%	0.2%	-	-	11.2%	11.3%
Short-term investments and cash and cash equivalents	14.3%	6.3%	0.5%	2.6%	8.7%	6.4%
Other investments	2.3%	2.4%	-	-	8.4%	8.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

	UKISA		Rest of the World		Other		Total	
2001	2000	2001	2000	2001	2000	2001	2000	
3,868	3,218	1,689	1,348	403	35	23,345	19,290	
2,909	2,696	927	751	1,458	726	16,744	14,235	
- 2,358	- 2,181	- 576	- 457	- 1,699	- 449	- 14,092	- 10,749	
-	-	- 2	- 1	- 1	-	- 74	- 96	
- 664	- 597	- 361	- 351	- 371	- 187	- 4,413	- 3,993	
- 113	- 82	- 12	- 58	- 613	90	- 1,835	- 603	
310	397	78	80	94	95	1,686	1,722	
193	186	- 8	- 4	66	82	521	952	
9	-	- 1	-	-	-	59	-	
- 74	- 55	8	- 7	- 74	39	- 247	- 214	
- 2	- 4	-	-	- 1	-	- 24	- 24	
323	442	65	11	- 528	306	160	1,833	
- 21	- 86	6	- 4	8	- 24	- 49	- 300	
302	356	71	7	- 520	282	111	1,533	
- 4	- 12	- 4	- 7	-	-	- 9	- 19	
298	344	67	-	- 520	282	102	1,514	

81.1%	80.9%	62.1%	60.8%	116.6%	61.8%	84.2%	75.5%
-	-	0.2%	0.1%	0.1%	-	0.4%	0.7%
22.8%	22.1%	38.9%	46.7%	25.3%	25.9%	26.4%	28.0%
103.9%	103.0%	101.2%	107.6%	142.0%	87.7%	111.0%	104.2%

131	144	160	170	-	-	1,258	1,217
1,649	1,516	710	481	-	-	6,818	5,809
1,084	938	379	354	-	-	4,679	3,944
648	407	113	111	-	-	4,484	3,420
185	118	181	174	- 79	54	3,809	2,997
171	95	146	58	482	- 19	2,297	1,903
3,868	3,218	1,689	1,348	403	35	23,345	19,290
6,540	6,860	1,441	1,329	2,247	3,449	33,225	35,017
47.8%	53.3%	44.5%	42.9%	1.9%	1.4%	53.4%	53.4%
30.4%	27.7%	15.5%	12.8%	0.1%	0.1%	18.8%	19.7%
0.9%	1.5%	4.6%	6.2%	1.6%	1.1%	4.3%	4.6%
3.1%	2.8%	23.9%	24.5%	19.4%	1.4%	10.6%	5.8%
17.8%	14.7%	11.5%	13.6%	77.0%	96.0%	12.9%	16.5%
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Statistical data per region

for the years ended 31 December

in USD millions

	N America Corporate		N American Consumer		Continental Europe	
	2001	2000	2001	2000	2001	2000
Life Insurance						
Gross written premiums, policy fees and insurance deposits	154	222	5,282	3,996	4,879	4,719
Gross written premiums and policy fees	154	222	1,251	976	4,432	4,255
Net earned premium and policy fees	104	175	762	703	4,375	4,184
Asset management fee income	–	–	–	–	8	9
Net investment income	54	60	757	743	1,612	1,508
Net realized capital gains	3	5	– 15	27	168	706
Net unrealized gains on investments	–	–	–	–	64	–
Other income	1	1	56	56	31	80
Total revenues	162	241	1,560	1,529	6,258	6,487
Net losses incurred and insurance benefits	– 67	– 114	– 369	– 280	– 4,914	– 4,711
Policyholder dividends and participation in profits	– 4	– 4	– 3	– 2	– 416	– 693
Underwriting and policy acquisition costs	– 16	– 39	– 58	– 84	– 341	– 307
Other operating and administrative expenses	– 30	– 35	– 252	– 254	– 249	– 316
Interest expense	– 6	– 6	– 441	– 413	– 183	– 121
Amortization of goodwill and other intangible assets	–	–	– 98	– 112	– 1	– 1
Total benefits, losses and expenses	– 123	– 198	– 1,221	– 1,145	– 6,104	– 6,149
Operating income	39	43	339	384	154	338
Income tax expense	– 12	– 18	– 115	– 126	– 52	– 90
Net income before minority interests	27	25	224	258	102	248
Net income applicable to minority interests	–	–	–	–	–	–
Net income	27	25	224	258	102	248
Investments, of which:	850	901	11,431	11,018	34,989	37,499
Fixed maturities	77.4%	78.9%	80.7%	82.6%	56.9%	55.4%
Equity securities	2.9%	3.7%	2.5%	2.1%	19.4%	22.7%
Real estate	–	–	0.7%	0.9%	6.6%	6.4%
Short-term investments and cash and cash equivalents	8.9%	5.4%	4.0%	2.0%	5.6%	5.3%
Other investments	10.8%	12.0%	12.1%	12.4%	11.5%	10.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2001	UKISA	Rest of World		Other		Total	
	2000	2001	2000	2001	2000	2001	2000
6,179	6,146	1,302	1,143	75	70	17,871	16,296
1,402	1,498	587	516	2	- 5	7,828	7,462
1,292	1,430	527	447	7	6	7,067	6,945
-	-	-	-	-	-	8	9
834	841	110	104	9	6	3,376	3,262
170	480	13	14	26	9	365	1,241
- 505	- 517	-	-	-	-	- 441	- 517
198	166	25	25	-	- 58	311	270
1,989	2,400	675	590	42	- 37	10,686	11,210
- 880	- 1,185	- 353	- 254	- 22	51	- 6,605	- 6,493
375	11	- 26	- 22	-	-	- 74	- 710
- 879	- 470	- 90	- 95	2	1	- 1,382	- 994
- 422	- 419	- 164	- 155	2	80	- 1,115	- 1,099
- 92	- 71	- 6	- 6	2	3	- 726	- 614
- 100	- 115	- 3	- 14	-	-	- 202	- 242
- 1,998	- 2,249	- 642	- 546	- 16	135	- 10,104	- 10,152
- 9	151	33	44	26	98	582	1,058
235	139	- 10	7	- 6	- 5	40	- 93
226	290	23	51	20	93	622	965
-	-	- 1	-	-	-	- 1	-
226	290	22	51	20	93	621	965
19,089	19,637	1,985	1,935	652	409	68,996	71,399
59.6%	57.6%	67.7%	63.2%	44.5%	56.3%	62.1%	60.7%
24.4%	25.1%	12.1%	11.9%	14.0%	11.5%	17.5%	19.6%
5.5%	5.8%	1.6%	3.1%	-	-	5.0%	5.2%
4.0%	4.9%	5.4%	11.1%	35.9%	16.6%	5.2%	4.9%
6.5%	6.6%	13.2%	10.7%	5.6%	15.6%	10.2%	9.6%
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Statistical data per region

for the years ended 31 December

in USD millions

	N America 2001	Consumer 2000
Life – Embedded value results		
Gross new business premiums including deposits, of which:	3,171	2,733
Annual premiums	260	248
Single premiums	2,911	2,485
Gross new business annual premiums equivalent (APE)	551	496
Embedded value information:		
Opening embedded value	3,495	3,188
Operating profit expected from in-force business and net assets, post tax	315	327
New business profit, post tax	9	35
Operating profit in excess of expected	– 75	34
Operating assumption changes	– 6	– 34
Total operating profit, post tax	243	362
Economic variance:		
Investment variance	– 119	– 88
Change in economic assumptions	48	119
Embedded value profit, post tax	172	393
Dividends and capital movements	133	84
Closing embedded value before foreign currency translation effects	3,534	3,497
Foreign currency translation effects	– 8	– 2
Closing embedded value after foreign currency translation effects, of which:	3,526	3,495
Shareholder net assets	1,811	1,851
Value of business in-force	1,715	1,644
Post-tax return on opening embedded value before foreign currency translation effects	4.9%	12.4%
Embedded value economic assumptions:		
Discount rate	8.5%	9.0%
Pre-tax investment returns:		
Fixed interest	6.6%	6.6%
Equities	9.1%	9.2%
Property	–	–
Expense inflation	2.0%	1.9%
Attributed tax rate	35.3%	35.5%
New business profit margin (APE)	1.6%	7.1%

The above information should be read in conjunction with the additional notes to main table on pages 34-35.

The embedded value profit in the above table is post-tax.

The embedded value represents the shareholders' interest, excluding any value from future new business, in the existing life insurance business. It is the total of the shareholder's interest in the net assets of the life business and the present value of the projected releases to shareholders arising from the business in-force less a charge for the cost of capital supporting the solvency requirements of the business.

The discount rate used to value the in-force business in each country reflects long term government bond rates at the valuation date plus a risk margin.

The assumptions for mortality, persistency and expenses reflect recent and expected experience.

All changes in assumptions not classified as "economic" are included in the "Operating assumption changes" item.

Post-tax profit from new business is the value added at the discount rate by new business written in the year. It is shown after appropriate allowance for the cost of solvency capital and is valued at point of sale.

Gross new business annual premium equivalent (APE) is calculated as new annual premiums plus 10% of single premiums.

External Review: B&W Deloitte, consulting actuaries, provided advice on the choice of methodology and assumptions used in the calculation of the embedded value. On the basis of the data provided by Zurich Financial Services, B&W Deloitte consider that the embedded value results are reasonable.

Continental Europe		UKISA		Rest of the World		Total	
2001	2000	2001	2000	2001	2000	2001	2000
1,501	1,406	3,696	4,006	801	752	9,169	8,897
289	220	479	511	184	160	1,212	1,139
1,212	1,186	3,217	3,495	617	592	7,957	7,758
411	339	800	861	246	219	2,008	1,915
2,900	3,176	4,573	4,590	556	681	11,524	11,635
232	255	369	371	63	76	979	1,029
-	- 7	71	76	2	17	82	121
22	- 14	- 63	15	- 18	- 7	- 134	28
129	75	- 27	120	- 20	- 1	76	160
383	309	350	582	27	85	1,003	1,338
- 719	- 39	- 244	- 136	- 12	7	- 1,094	- 256
- 87	34	1	-	- 53	- 12	- 91	141
- 423	304	107	446	- 38	80	- 182	1,223
151	476	196	92	- 77	173	403	825
2,326	3,004	4,484	4,944	595	588	10,939	12,033
- 101	- 104	- 134	- 371	- 49	- 32	- 292	- 509
2,225	2,900	4,350	4,573	546	556	10,647	11,524
1,174	1,650	1,611	1,683	271	195	4,867	5,379
1,051	1,250	2,739	2,890	275	361	5,780	6,145
- 14.6%	9.5%	2.3%	9.7%	- 6.8%	11.8%	- 1.6%	10.5%
8.1%	8.0%	8.0%	8.1%	11.2%	11.4%	8.4%	8.5%
4.5%	4.7%	5.0%	5.0%	5.8%	6.3%	5.2%	5.2%
7.9%	7.9%	7.5%	7.5%	8.4%	9.0%	7.8%	7.8%
5.7%	5.8%	7.0%	7.0%	7.3%	8.6%	6.1%	6.1%
1.9%	1.9%	3.1%	3.1%	2.8%	3.7%	2.4%	2.5%
24.3%	24.4%	30.0%	30.0%	25.4%	22.7%	30.3%	29.8%
0.1%	- 2.2%	8.8%	8.9%	1.0%	7.8%	4.1%	6.3%

Statistical data per region

for the years ended 31 December

in USD millions

Operating & Economic Profits**Life – Embedded value results continued****Additional notes to main table**

1. North America premiums include new single premiums from Structured Settlement and Equity Indexed Annuity products in Farmers Life, and Australian premiums include single premium increments. In previous results these premiums were not shown as new business. In addition, part of the Argentine regular premium business has been reallocated and is now excluded from the new business premiums. The following table details the historical view of new business premiums for comparison:

	North America Consumer		Rest of the World		Total	
	2001	2000	2001	2000	2001	2000
Gross new business premiums including deposits, of which:	2,961	2,572	646	697	8,804	8,681
Annual premiums	260	248	205	184	1,233	1,163
Single premiums	2,701	2,324	441	513	7,571	7,518
Gross new business annual premiums equivalent (APE)	530	481	249	235	1,990	1,915

2. The UKISA value of new business includes revenue generated through the UK sales force in respect of sales of third party and asset management products. The effect of excluding these revenues is shown in the following table.

(The values of new business for North America and Rest of the World include the premiums referred to in Note 1.)

	North America Consumer		UKISA		Rest of the World		Total	
	2001	2000	2001	2000	2001	2000	2001	2000
New business profit, post tax	9	35	62	67	2	17	73	112
New business profit margin (APE)	1.7%	7.3%	7.7%	7.7%	1.0%	7.3%	3.7%	5.8%

3. North America Consumer includes value from the immaterial level of life business in North America Corporate. New business APE in North America Corporate amounted to USD 4 million for 2001.
4. In last year's annual report it was communicated that new business premiums for Switzerland would exclude pension transfers and salary related increments for employer group pension business. The impact of including these amounts in 2000 was to increase APE by USD 228 million, which would give the published profit margin of 5.2%
5. For additional information, the UK and Switzerland (part of Continental Europe) are shown below:

	United Kingdom		Switzerland	
	2001	2000	2001	2000
Gross New Business Premiums including deposits	3,450	3,751	660	566
Gross New Business Annual Premiums Equivalent (APE)	730	791	139	123
Embedded Value Information				
Opening embedded value	4,378	4,404	1,643	1,960
New business profit, post tax	62	67	- 13	- 14
Other operating profit, post tax	265	485	198	209
Total operating profit, post tax	327	552	185	195
Economic variance	- 230	- 128	- 635	- 44
Embedded value profit, post tax	97	424	- 450	151
Closing embedded value before foreign currency translation effects	4,279	4,735	1,057	1,664
Closing embedded value after foreign currency translation effects of which:	4,157	4,378	1,025	1,643
Shareholder Net Assets	1,553	1,615	585	1,014
Value of business in-force	2,604	2,763	440	629
Post-tax return on opening embedded value before foreign currency translation effects	2.2%	9.6%	- 27.4%	7.7%
Embedded Value Economic Assumptions:				
Discount Rate	8.0%	8.1%	7.5%	7.5%
New Business Profit Margin (APE)	8.5%	8.5%	- 9.3%	- 11.6%

Economic assumptions for both the UK and Switzerland have remained unchanged from those for 2000.

UK new business value includes revenue from third party sales (see 2 above).

Embedded value sensitivities

The following tables show the sensitivity of our 2001 embedded value and value of new business to changes in several key assumptions:

Change in embedded value (USD million)	Discount Rate 1% Increase	Discount Rate 1% Decrease	Interest Rate 1% Increase	MV of Equities 10% Decrease	Renewal Expenses 10% Decrease
	– 536	596	299	– 464	243
Change in new business value (USD million)		Discount Rate 1% Increase	Discount Rate 1% Decrease	Interest Rate 1% Increase	Renewal Expenses 10% Decrease
		– 71	77	35	23

Please note that the figures shown above are “sensitivities” – for each assumption change, all other assumptions have remained unchanged. The exception to this is where there is a direct relationship between policyholder bonus rates and interest rates, in which case bonus rates have been adjusted appropriately for the interest rate sensitivity.

Statistical data per region

for the years ended 31 December

in USD millions

	North America ⁴		Continental Europe	
	2001	2000	2001	2000
Asset Management²				
Asset management fee income	1,093	1,220	129	122
Total revenues	1,161	1,258	157	142
Total benefits, losses and expenses, of which:	- 1,220	- 1,227	- 145	- 125
Amortization of goodwill and intangible assets	- 101	- 103	- 1	-
Operating (loss)/income	- 59	31	12	17
Income tax expense	7	- 32	- 6	- 5
Net (loss)/income before minority interests	- 52	- 1	6	12
Net income applicable to minority interests	2	3	- 2	- 2
Net (loss)/income	- 50	2	4	10
Other information:				
Own investments (Zurich Financial Services Group)	28,693	29,105	51,753	58,123
Separate account (unit-linked) assets	14,544	11,201	1,057	989
Third-party assets under management, of which:	187,295	220,723	9,707	10,549
Individual ³	115,823	131,453	4,520	5,018
Institutional	71,472	89,270	5,187	5,531
Total assets under management	230,532	261,029	62,517	69,661
Third-party fund flow analysis:				
Opening balance	220,723	225,838	10,549	11,420
Inflow	28,170	45,352	2,779	4,639
Outflow	- 53,293	- 43,293	- 1,928	- 3,073
Net inflows	- 25,123	2,059	851	1,566
Performance	- 9,522	- 6,673	- 1,249	- 211
Currency movements and other	1,217	- 501	- 444	- 2,226
Closing balance	187,295	220,723	9,707	10,549
Fee income/total revenue	94.1%	97.0%	82.2%	85.9%
Operating income before amortization of goodwill and intangible assets/ total revenue	3.6%	10.7%	8.3%	12.0%
Fee income/average third party assets under management in basis points	54	55	127	111
Total assets under management, of which:	230,532	261,029	62,517	69,661
Own investments (Zurich Financial Services Group)	12.4%	11.2%	82.8%	83.4%
Separate account (unit-linked) assets	6.3%	4.3%	1.7%	1.4%
Third-party assets under management, of which:	81.3%	84.5%	15.5%	15.2%
Individual ³	50.3%	50.3%	7.2%	7.2%
Institutional	31.0%	34.2%	8.3%	8.0%
Total assets under management	100.0%	100.0%	100.0%	100.0%

¹"Other" includes certain holding companies, Group Head Office and inter-regional eliminations.

²Assets under management are allocated geographically based on the location of the entity reporting the assets, generally the entity through which they first enter the Group. Where specific distribution channel information is available for Zurich Scudder Investments institutional assets, this location information has been used in establishing geographical location. In the case of Zurich Scudder Investments' Luxembourg family of funds, location has been determined based on where the trades are processed.

³Individual assets include two lines of business: mutual funds and Private Investment Counsel (generally separate portfolios for individuals).

⁴North America Consumer and North America Corporate are combined. The Group does not allocate its Asset Management operations between the regions.

UKISA		Rest of the World		Other ¹		Total	
2001	2000	2001	2000	2001	2000	2001	2000
238	273	67	50	- 10	- 15	1,517	1,650
255	277	84	53	- 11	- 15	1,646	1,715
- 240	- 219	- 83	- 55	11	15	- 1,677	- 1,611
-	-	-	-	-	-	- 102	- 103
15	58	1	- 2	-	-	- 31	104
- 1	- 19	1	1	-	-	1	- 55
14	39	2	- 1	-	-	- 30	49
- 1	2	2	- 1	-	-	1	2
13	41	4	- 2	-	-	- 29	51
25,924	27,197	24,182	19,943	- 6,904	- 8,889	123,648	125,479
36,863	41,098	2,387	2,503	-	-	54,851	55,791
14,789	15,051	7,713	7,412	-	-	219,504	253,735
8,047	8,138	2,254	2,890	-	-	130,644	147,499
6,742	6,913	5,459	4,522	-	-	88,860	106,236
77,576	83,346	34,282	29,858	- 6,904	- 8,889	398,003	435,005
15,051	14,174	7,412	7,334	-	-	253,735	258,766
4,200	4,452	3,967	3,565	-	-	39,116	58,008
- 2,993	- 2,110	- 2,269	- 2,693	-	-	- 60,483	- 51,169
1,207	2,342	1,698	872	-	-	- 21,367	6,839
- 1,784	- 659	- 1,090	- 766	-	-	- 13,645	- 8,309
315	- 806	- 307	- 28	-	-	781	- 3,561
14,789	15,051	7,713	7,412	-	-	219,504	253,735
93.3%	98.6%	79.8%	94.3%	-	-	92.2%	96.2%
5.9%	20.9%	1.2%	- 3.8%	-	-	4.3%	12.1%
160	187	89	68	-	-	64	64
77,576	83,346	34,282	29,858	- 6,904	- 8,889	398,003	435,005
33.4%	32.6%	70.5%	66.8%	100.0%	100.0%	31.1%	28.9%
47.5%	49.3%	7.0%	8.4%	-	-	13.8%	12.8%
19.1%	18.1%	22.5%	24.8%	-	-	55.1%	58.3%
10.4%	9.8%	6.6%	9.7%	-	-	32.8%	33.9%
8.7%	8.3%	15.9%	15.1%	-	-	22.3%	24.4%
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Normalized net income

for the years ended 31 December

in USD millions

	Non-Life Insurance		Life Insurance		Asset Management		Farmers Management Services	
	2001	2000	2001	2000	2001	2000	2001	2000
Reported net (loss)/income	102	1,514	621	965	- 29	51	501	559
Less: Reported realized capital (gains)/losses	- 580	- 952	76	- 724	- 6	- 7	41	- 69
Add: Normalized capital (losses)/gains	584	646	979	1,076	14	27	18	24
Difference	4	- 306	1,055	352	8	20	59	- 45
Allocated to policyholders and other items not included in the normalized calculation	-	-	- 897	- 298	-	-	-	-
Net adjustment pre tax	4	- 306	158	52	8	20	59	- 45
Tax rate applied	30.4%	16.4%	- 6.9%	8.8%	32.0%	53.2%	38.4%	38.2%
Net adjustment post tax	3	- 256	169	48	5	9	36	- 28
Adjustment for country specific items	-	-	- 67	- 22	-	-	-	-
Normalized net income	105	1,258	723	991	- 24	60	537	531

Calculation of normalized gains

Average of fixed maturities portfolio	18,228	19,202	42,092	42,165	47	50	192	440
Average of equity securities portfolio	6,578	7,329	13,052	14,326	186	358	230	288
Normalized gains on fixed maturities = 0.5%, life = 0%	91	96	-	-	-	-	1	2
Normalized gains on equity securities = 7.5%	493	550	979	1,076	14	27	17	22
Total	584	646	979	1,076	14	27	18	24

Normalized net income is calculated by replacing realized capital gains after tax with normalized capital gains after tax. These are calculated as 7.5% on the equity portfolio plus 0.5% on the fixed maturities portfolio, with allowance made for that proportion of the gains belonging to life policyholders. The tax and policyholder allocation in our life businesses vary considerably from country to country. We consequently make an adjustment to the basic normalized calculation to take this into account.

Reported realized capital (gains)/losses include reported net unrealized (gains)/losses on investments.

The Capital Markets & Banking Segment has not been normalized due to the nature of its business.

Capital Markets & Banking		Centre		Reinsurance – discontinued		Corporate		Total	
2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
89	80	101	131	- 460	103	- 1,312	- 1,087	- 387	2,316
- 528	- 265	- 111	- 66	79	- 31	381	- 205	- 648	- 2,319
528	265	73	68	9	63	183	170	2,388	2,339
-	-	- 38	2	88	32	564	- 35	1,740	20
-	-	-	-	- 6	-	-	-	- 903	- 298
-	-	- 38	2	82	32	564	- 35	837	- 280
0.0%	18.2%	0.0%	6.2%	0.0%	0.0%	3.3%	3.2%		
-	-	- 38	2	82	32	545	- 34	802	- 227
-	-	-	-	-	-	-	-	- 67	- 22
89	80	63	133	- 378	135	- 767	- 1,121	348	2,067
1,559	1,256	6,653	5,903	232	2,373	1,418	1,228	70,421	72,617
4,759	2,027	515	511	102	680	2,349	2,194	27,771	27,713
8	6	33	30	1	12	7	6	141	152
520	259	40	38	8	51	176	164	2,247	2,187
528	265	73	68	9	63	183	170	2,388	2,339