Zurich Financial Services Group

ZURICH®

ANNUAL **REPORT 2011**

Tomorrow is insured

Helping our customers understand and protect themselves from risk

About Zurich

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

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

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Performance overview

Financial highlights (unaudited)

in USD millions, for the years ended December 31, unless otherwise stated	2011	2010	Change[1]
Business operating profit	**4,261**	4,870	(12%)
Net income attributable to shareholders	**3,766**	3,428	10%
General Insurance gross written premiums and policy fees	**34,572**	33,066	5%
Global Life gross written premiums, policy fees and insurance deposits	**27,711**	27,675	–
Farmers Management Services management fees and other related revenues	**2,767**	2,778	–
Farmers Re gross written premiums and policy fees	**3,529**	4,194	(16%)
General Insurance business operating profit	**2,265**	2,667	(15%)
General Insurance combined ratio	**98.8%**	97.9%	(0.9 pts)
Global Life business operating profit	**1,353**	1,474	(8%)
Global Life new business annual premium equivalent (APE)	**3,992**	3,699	8%
Global Life new business margin, after tax (as % of APE)[2]	**24.5%**	23.3%	1.2 pts
Global Life new business value, after tax[2]	**980**	862	14%
Farmers business operating profit	**1,486**	1,686	(12%)
Farmers Management Services gross management result	**1,333**	1,338	–
Farmers Management Services managed gross earned premium margin	**7.3%**	7.3%	–
Average Group investments	**195,141**	195,532[3]	–
Net investment result on Group investments	**9,367**	7,990	17%
Net investment return on Group investments	**4.8%**	4.1%	0.7 pts
Total return on Group investments	**5.4%**	5.4%	–
Shareholders' equity	**31,636**	31,905	(1%)
Diluted earnings per share (in CHF)	**22.62**	24.33	(7%)
Book value per share (in CHF)	**203.15**	202.18	–
Return on common shareholders' equity (ROE)	**11.9%**	11.4%	0.6 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	**10.2%**	12.9%	(2.6 pts)

[1] Parentheses around numbers represent an adverse variance.
[2] Changes to the basis of calculation of embedded value, including new business, are set out in the Embedded value report and in the Global Life section of the Operating and financial review.
[3] Excluding average cash received as collateral for securities lending of USD 246 million in the year ended December 31, 2010

Operational highlights

- Long-term joint venture agreed with Banco Santander in key Latin American markets
- Strategic acquisition in Malaysia with Malaysia Assurance Alliance Berhad (MAA)
- Distribution agreement renewed with Deutsche Bank in Germany and Italy
- Strong improvements in underlying loss ratio in General Insurance
- Diversification into higher growth markets on schedule in Global Life
- Premium growth in nearly all active lines of business of the Farmers Exchanges, which we manage but do not own

Zurich at a glance

We help individuals, small- and medium-sized companies and global corporations around the world understand and protect themselves from risk by offering a wide range of insurance products, solutions and advisory services.

Business operating profit	Proposed dividend	Financial strength	Shareholders' equity
USD 4.3 bn	CHF 17.00	AA-/ stable Standard & Poor's	USD 31.6 bn

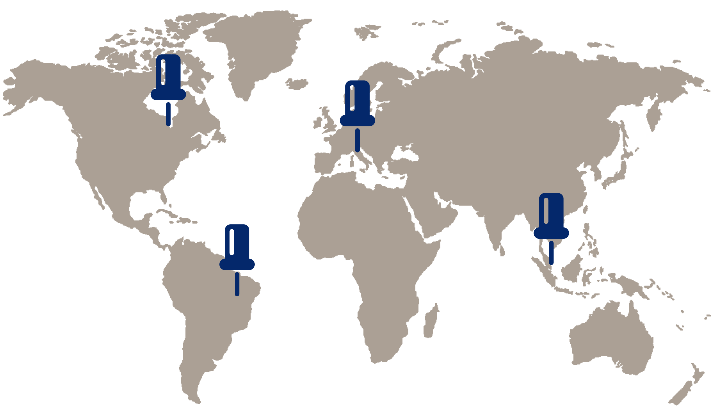
>170 Countries

We take a global approach to our core businesses of general and life insurance. Individual, commercial and corporate customers benefit from our strong presence in the world's most attractive insurance markets.

60,000 Employees

Thousands of Zurich professionals work in many fields to help our customers understand and manage risk.

Zurich – the global insurer



Europe
Our presence is anchored by major operations in Switzerland, the United Kingdom and long-standing businesses in six other European countries.

The Americas
We entered a strategic alliance in Latin America and in 2012 we celebrate 100 years in the United States.

Asia-Pacific, Middle East and Africa
We enlarged our presence in Southeast Asia, where young professionals and high net worth customers make up a fast-growing life segment.

Recognitions in 2011

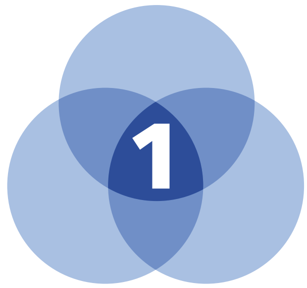
- **Zurich in top 100 global brands of 2011** (Interbrand)
- **#2 most-admired company in property and casualty insurance and #102 in the Fortune Global 500** (Fortune)
- **Zurich named Best Overall Commercial Insurer** (National Underwriter)
- **University of Farmers is rated the #1 Corporate University** (Training) **and its leader is rated the Learning Professional of the Year** (Skillsoft)
- **Life Insurer of the Year and Energy Insurer of the Year** (Middle East and North Africa Insurance Review)
- **Claims services receive honors in Germany** (TÜV Süd) **and Switzerland** (ESPRIX)
- **Zurich Japan is #1 in customer satisfaction in the Japanese general insurance sector** (Japanese Customer Satisfaction Index 2011 Survey)

Our Group

One team, one purpose
Zurich is a global insurer with superior financial strength, a talented workforce and a highly valued brand. We apply these strengths to help our individual, commercial and corporate customers understand and protect themselves from risk.

Acting as one team with one purpose we take a global approach to resources and capabilities. We have the flexibility and speed to adapt our product and geographic mix to meet changing market conditions. Global processes and systems – from a unified Zurich approach to project management to a Group-wide people strategy – allow us to get the most from our strengths, and so to work steadily toward our aspiration to become the best global insurer as measured by our customers, shareholders and employees.

We deliver what matters when it matters through three core business segments – General Insurance, Global Life, and Farmers. Their individual businesses, geographies, market segments and distribution channels are described below.



General Insurance

Business: property and casualty insurance and services
Market segments: individual, commercial and corporate customers
Distribution channels: agents, banks, brokers, direct
Geography: global

Business operating profit

USD 2,265 m

See page 80 for more information

Global Life

Business: life insurance, savings, investment and pension solutions
Market segments: individual, commercial and corporate customers
Distribution channels: agents, banks, brokers, employee benefit consultants, direct
Geography: global

Business operating profit

USD 1,353 m

See page 85 for more information

Farmers

Business: management services related to property and casualty insurance
Market segments: individual and commercial customers
Distribution channels: agents, direct
Geography: United States

Business operating profit

USD 1,486 m

See page 88 for more information

Message from the Chairman and CEO

We are well positioned to outperform in an environment which remains challenging.

Dr. Manfred Gentz and Martin Senn

Dear Shareholder,

We are pleased to present to you a good result for 2011, which we achieved despite the devastating earthquakes and the exceptional frequency of weather-related events that made this one of the most expensive years for catastrophe-related insured losses. In challenging economic and financial market conditions, our Group maintained its focus on the execution of its underwriting strategies and further improved its customer orientation while protecting its strong capital position. We closed significant acquisitions in Latin America and Malaysia, enhancing our footprint in target high-growth markets.

Our net income attributable to shareholders over the year was USD 3.8 billion, or 10 percent higher than in 2010, and our return on equity was 11.9 percent, 0.6 percentage points higher than in 2010. Our business operating profit was USD 4.3 billion, leading to a business operating profit after tax return on equity of 10.2 percent.

> We are pleased to present a good result for 2011, a year characterized by natural catastrophes and challenging conditions.

This is a strong performance given natural catastrophes and the challenging environment, supported by the excellent total return from Group investments of 5.4 percent. Reflecting our strong cash flows and capital base, as well as our confidence in our business strategy, we are pleased to propose a dividend of CHF 17.00 per share.

Selective growth in mature markets with expanding presence in high-growth markets

Robust underwriting discipline combined with a sustained focus on profitability produced strong improvements in the underlying loss ratio of General Insurance. In Global Life, increased fee income supported investments to enhance global capabilities and mitigated the impact of the low interest rate environment. Through the acquisition of 51 percent of Banco Santander's Latin American insurance operations as well as the acquisition of composite insurer Malaysian Assurance Alliance Berhad, both General Insurance and Global Life enhanced their footprint in emerging markets where the outlook for economic growth remains positive. Gross written premiums increased in nearly all active lines of business in the Farmers Exchanges, which are managed but not owned by Farmers Group Inc., a wholly owned subsidiary of Zurich, reflecting the accelerating underlying growth momentum during the latter part of the year.

Resilient performance in 2011

In General Insurance, our business operating profit was USD 2.3 billion, 15 percent lower in U.S. dollar terms and 19 percent lower on a local currency basis. The sustained focus on profitability has continued to produce strong improvement in the underlying loss ratio, helping to offset the effect of the exceptional frequency and overall severity of catastrophe and weather-related loss events. Gross written premiums and policy fees increased by USD 1.5 billion to USD 34.6 billion or by 5 percent in U.S. dollar terms, but remained flat on a local currency basis. In order to maintain margins, average rates increased by over 3 percent, an improvement of 1 percentage point compared with 2010. Despite these rate increases, customer retention levels improved slightly compared with 2010.

Message from the Chairman and CEO *continued*

In Global Life, business operating profit was USD 1.4 billion, 8 percent lower in U.S. dollar terms and 14 percent lower on a local currency basis. Volume increases in strategic growth markets in Latin America and Asia-Pacific and Middle East were offset by lower volumes in Ireland, Spain and Germany as difficult market conditions persisted in those countries, together with the impact of the divestment of the jointly owned insurance operations with Caixa Sabadell in Spain. New business value after tax reached USD 980 million, an increase of 14 percent in U.S. dollar terms and 7 percent on a local currency basis, following a methodology refinement for the calculation of new business value for the corporate protection business, which is more reflective of the underlying economics. Excluding this refinement, new business value after tax was flat in U.S. dollar terms and reduced by 5 percent in local currency. Volume growth was more than offset by a reduction in new business margin of 1.2 percentage points in local currency. Overall new business margin for the year remains at a strong level of 21.6 percent excluding the methodology change, and 24.5 percent including the change.

Management fees and other related revenues from Farmers Management Services remained flat despite the effect of the planned run-off of the 21st Century agency auto book of business in the Farmers Exchanges. This effect was largely offset by continued increases in gross earned premiums in the Farmers Exchanges, particularly in 21st Century direct as well as business and specialty insurance. The managed gross earned premium margin at Farmers Management Services remained flat at 7.3 percent compared with the prior year. Gross written premiums in the Farmers Exchanges increased by USD 166 million to USD 18.3 billion. In Farmers Re, gross written premiums and policy fees decreased by 16 percent to USD 3.5 billion due to the change in the participation level of the All Lines Quota Share reinsurance agreement, which in combination with a significant increase in weather-related losses resulted in a decreased business operating profit of USD 116 million. Overall, Farmers reported a business operating profit of USD 1.5 billion.

“Our strategy is based on key principles of execution, financial and underwriting discipline, and above all, focusing on our core business of insurance.

Well positioned to outperform in a challenging environment

The continued demanding conditions of 2011 have challenged – and confirmed – the strength of our strategy. Our strategy is based on key principles of execution, financial and underwriting discipline, and above all, focusing on our core business of insurance. In light of this, the Board of Directors is proposing to the Annual General Meeting on March 29, 2012, to change our name from Zurich Financial Services Ltd to Zurich Insurance Group Ltd.

> “The demanding conditions of 2011 have challenged – and confirmed – the strength of our strategy.

The best way we show our success is by continuing to help our customers understand and protect themselves from risk. In 2011, one of the most expensive in terms of catastrophe-related losses for the insurance industry, we dedicated ourselves to helping customers mitigate catastrophe risks and to rebuilding in their aftermath. In 2012 we proudly celebrate 100 years of providing that help in the United States. Going forward we will seek to find more ways to leverage our insurance and risk management expertise to equip people to better manage change and risk in their lives and in the world around them.

We express our thanks to the employees of Zurich, whose hard work, diligence and expertise make these results possible. We also thank our customers, whose trust in us is especially valued in these uncertain times. Finally we express our thanks to you, our shareholders. Your confidence in us is an integral element of our aspiration to become the best global insurer as measured by our employees, our customers and you, our shareholders.

Dr. Manfred Gentz
Chairman of the Board of Directors

Martin Senn
Chief Executive Officer

Global perspectives

Megatrends:

a look at the forces shaping the insurance market of the future.

In the eyes of some, yesterday's certainties might be preferable to tomorrow's uncertainties. Negative factors such as high unemployment, widespread debt reduction, and a general uneasiness about institutions, regulations and growth can darken one's perspective on the prospects for our future.

Nonetheless the currents of change are interacting to create a complex picture; one that is surely menacing to some, but undoubtedly rich in opportunities. Five megatrends in particular catch our attention. They will reshape our economies and our societies, and will be decisive to the performance of global insurers over the long term.

Connectivity and community

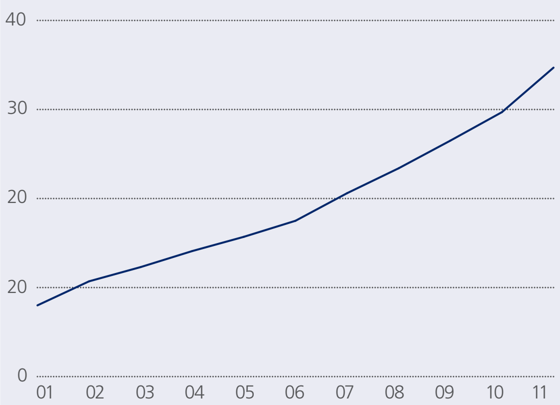
The first megatrend concerns the rise of online platforms and the advances in hardware and software underlying their use. Computers, tablets and smartphones offer alternative spaces to conduct interactions – and to create communities – that previously have only been viable in such traditional settings as lunchrooms, schools and shopping malls. While many will adapt to online platforms without disruption, others may find that they bring a complete transformation in their way of life. Many individuals may not miss the task of visiting their bank to make deposits. Local banks, on the other hand, may find themselves competing with peer-to-peer networks that connect savers and borrowers directly.

Online reviews, whether by an objective consumer or by a member of one's virtual community, can influence buying decisions just as decisively as a tip from a friend. As these platforms become faster and more ubiquitous, online 'word of mouth' will grow to be more powerful than ever. The more one's product can be sold 'virtually' – a distinction of many insurance products – the more critical it is to be able to interact with customers over these platforms. Online communities may one day form the basis of mutual societies, for which traditional insurers would serve more as administrators than product providers. As a forward-looking insurer we are focused on how online platforms can help us work better and connect with our customers more effectively.

The processes that underlie the rise of online platforms are directly applicable to core insurance operations. Technologies such as cloud computing can be leveraged to make a global workforce more efficient and mobile. For customers, such technologies make insurance prices more directly comparable and thus push for

Online platforms
Computers, tablets and smartphones offer alternative spaces to conduct interactions. As a forward-looking insurer we are focused on how online platforms can help us work better and connect with our customers more effectively.

Global Internet users per 100 inhabitants
2001-2011



Source: ITU Statistics (http://www.itu.int/ict/statistics)

a commoditized market in insurance services. On the other hand, interconnected data networks can create new business models that join insurers and customers more tightly. In this scenario, data and sensory networks could allow insurers and their customers to create and share value by actively collaborating on risk control and mitigation with premiums responding quickly.

For the insurance industry overall, these evolving technological processes reduce barriers to entry and create new grounds for competition among incumbents. Mastery of the processes underlying online migration – for both efficient operation and for reaching and delighting customers – will be critical to success.

The role of insurance in society

The second megatrend is increased regulation and legislation with regard to insurance. The financial crisis has provoked an inevitable demand for regulatory reform in many jurisdictions. While some gaps in regulation appear obvious in retrospect, the process of 'fixing' the global financial system has few clear answers and leaves many openings for unintended consequences. At Zurich we are especially eager to make clear that the insurance sector had a benign influence on financial markets during the crisis. The nature of the insurance sector's influence arises from fundamental qualities of the insurance business model.

No matter which corner of the financial community is being addressed, it is critical that public and private forces work together to determine optimal regulatory models for financial services on a global basis. This applies equally to insurance as well as to banking, and to adjacent industries such as pensions, hedge funds and others. Global insurers will need to watch carefully how shifting regulatory conditions (tax regimes, capital requirements, etc.) affect their competitive positions and product offerings.

> “Five trends will reshape our economies and our societies. They will be decisive to the performance of global insurers over the long term.

The stabilizing influence of insurance

In addition to the direct help that we provide to businesses and individuals in managing risk, Zurich – with the rest of the insurance sector – plays an important role in the financial system. We allocate investment assets to closely match our liabilities. Insurers who follow this policy are stable, long-term investors. Our sector is pre-funded by a stable flow of premiums from customers, which drastically reduces the possibility of liquidity crises. The liabilities that insurers face are caused by risks that are not correlated; no plausible string of events could create a 'run' on the insurance sector. Insurance has a stabilizing influence on financial markets, even during crises, and no pure insurer could be a source of systemic risk. A strong, well-regulated insurance sector is in everybody's interest.

Global perspectives *continued*

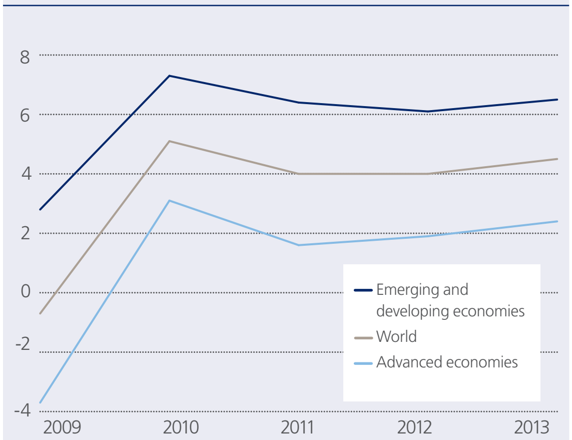
The changing nature of work

The third megatrend is the long-term rebalancing of labor markets in mature economies. Opportunities for low-skilled workers are becoming scarcer, a trend which is reinforced by technological changes mentioned above. For highly skilled workers the picture is nearly the opposite. This trend points out that it is critical to attract and retain top talent, as corporations find themselves increasingly in competition with other global corporations – and not just within their sector. At Zurich we continuously upgrade our human resources infrastructure and processes, then build on those to create a differentiated talent management strategy. We also help companies attract and retain their talent with our employee benefit programs.

Global economic rebalancing

Of course labor markets are not rebalancing in isolation. The fourth trend concerns the rebalancing of the global economy overall. Most mature economies are saddled with debt and low growth, with small but growing risk of serious social unrest. Meanwhile emerging markets are poised to continue delivering the greater part of global economic growth, and in so doing will solidify gains in influence and stature. With this rebalancing, former emerging markets will emerge not just as markets, but as true global leaders. Brazil, China, India, and many of the countries that have taken part in the 'Arab Spring' will feature more prominently in shaping the international order. New global insurance titans are likely to come forward from these countries, some perhaps internally generated, as demand for insurance rises in line with economic growth. And with growth, too, comes construction and development – perhaps in areas vulnerable to natural or climate-driven catastrophes. This last aspect of growth is of obvious concern to insurers, and one we are committed to addressing proactively.

Real Gross Domestic Product (GDP) growth in %



Source: IMF

Changes for labor
Opportunities for low-skilled workers are becoming scarcer, a trend which is reinforced by technological changes. For highly skilled workers the picture is nearly the opposite. This trend points out that it is critical to attract and retain top talent.

Sustainability
This year the world's population passed the seven billion mark. Increased population increases the risk of global pandemics. Competition for natural resources, especially energy and water, is intensifying.

An unsustainable future?

The final trend is in a sense one that contains the others and concerns us all. A constellation of forces seems to be moving us toward a potentially unsustainable future. This year the world's population passed the seven billion mark. Increased population increases the risk of global pandemics. Competition for natural resources, especially energy and water, is intensifying. The logic of an aging population is straining government budgets in the rich world, while the frustrations of a young one have contributed to the unrest of the 'Arab Spring.' Income inequality in rich economies is forcing many to question whether the economic system really works for them, while increasing wealth in emerging economies can throw fuel onto longstanding conflicts. Thoughtful and constructive policy will be more essential than ever to avoid a doubtful future.

The best global insurer will be the one that can monitor these trends most insightfully and navigate their interaction most successfully. In the following pages we will show how we are positioning Zurich to win that title.

> "The best global insurer will be the one that can monitor these trends most insightfully and navigate their interaction most successfully.

Economic rebalancing
Most mature markets are saddled with debt and low growth, with small but growing risk of serious social unrest. Meanwhile emerging markets are poised to continue delivering the greater part of economic growth. New global insurance titans are likely to come forward from these countries as demand for insurance rises in line with economic growth.

Our strategy

The effective execution of our strategy has enabled us to deliver a strong result.

That strategy keeps our focus on our mission – helping our customers understand and protect themselves from risk – and moves us toward our aspiration of becoming the best global insurer as measured by our shareholders, customers and employees.

We take a Group-wide approach to capabilities and resources, fully leveraging the strength of our global organization. We focus on developing our talent base, improving systems and streamlining our business.

Our strategy targets profitability and growth through a combination of efficiency-enhancing measures, disciplined portfolio management, expansion into high potential markets and improving our customer proposition. We strive to protect our business by maintaining strict financial discipline, attracting the best talent in the industry, keeping our focus strictly on insurance and preserving organizational agility so that we can respond quickly to emerging risks and opportunities.

Staying on course

We stayed true to this approach in 2011. We remained focused on our strategic business operating profit after-tax return on equity target of 16 percent, recognizing that so long as current conditions persist, achieving a return of around two percentage points below our strategic target is more realistic. We also aim to pay an attractive and sustainable dividend to our shareholders, proposed at CHF 17.00 for 2011. Our strong cash flow generation and capital position provide solid support to these goals going forward.

Our ability to continue delivering profitable growth is reflected by the operating performance of each of our core business segments. It is also visible in the strong progress we have made in building our franchise through alliances, acquisitions, joint ventures and distribution agreements.

Teaming up for success

The acquisition of Malaysia Assurance Alliance Berhad (MAA) gives us a strong life insurance agency sales force and general insurance distribution network. This is a key milestone in the emerging market strategy, as well as a building-block for expansion in the Asia-Pacific region. Combined with Zurich's global expertise and the foundation MAA has built in the Malaysian insurance market over the last 40 years, this transaction will enable us to build a strong Zurich talent pool and deliver profitable growth in Malaysia and other markets in the area – a highly attractive region which, with a young and growing population, stands out for its great economic potential.

The long-term alliance with Banco Santander (SA) allows us to work through their more than 5,600 bank branches to reach a potential 36 million customers in Brazil, Mexico, Chile, Uruguay and Argentina with our general and life insurance solutions. The alliance makes Zurich the fourth-largest insurer in Latin America. Similarly to the Malaysian market, the low rate of insurance penetration in these Latin American countries coupled with promising growth forecasts give us every confidence that this 25-year strategic distribution agreement will be a cornerstone of profitable growth.

The alliance with Santander follows a proven pattern of success for Zurich. In 2002 we entered into a distribution agreement with Deutsche Bank. Over the course of that collaboration we grew revenue, new business value and commissions significantly faster than other insurers in markets where we were competing directly. In Germany, Italy and Spain, Deutsche Bank now has twice the market share of bank-sold insurance compared to its peers. In 2011 we renewed the distribution agreement with Deutsche Bank for another ten years, signaling mutual and continued satisfaction with the growth generated in bank distribution.

Looking to the future

In terms of acquisitions our stance is selective and patient; and proactive when suitable opportunities arise. Any market expansions require case-by-case assessment of the value we can add. We are prepared to seize opportunities from the current market turmoil and from the insurance cycle, but only where doing so makes economic sense.

We add value in our current business by enhancing our customer management capabilities, leveraging customer insights and predictive modeling to increase the attractiveness of our products, and by taking advantage of changes in the distribution landscape to make our products more accessible.

This flexibility helps us keep an open mind to forms of insurance that we do not currently cover, and to reviewing the forms we do. For example, in North America we use state-of-the-art underwriting tools to determine where we are under-pricing risk, and where our pricing is adequate to the risks assumed. Such enhanced visibility

For more information please visit **www.zurich.com**

is driving portfolio actions across the entire North American commercial business.

Farmers is responding to the ways in which technology is segmenting consumers, with a growing trend toward direct purchase of personal lines insurance (i.e., via Internet or phone). By using a varied but joined-up approach that integrates agents, direct sites, social media and other means, Farmers can mitigate this channel conflict and enable cross-selling of insurance from across the Farmers organization.

The right people

Our people management strategy ensures that we have the best people in our industry and use their talents wisely. We have set our sights on improving our attractiveness to top talent. We are developing measures for both external comparison and internal measures of performance, and we continue to listen closely to our people through the Group-wide employee engagement survey.

Performance measures are in place to provide a guiding support to all employees and their managers so that everyone can track their progress along a clear career path, and to indicate where they could use support. This approach to building a talent pipeline will help us to meet our goal of filling leadership roles with internal candidates wherever possible. We are working to make sure our approach to talent management and acquisition is globally consistent, with rewards that recognize business results and that attract, retain and motivate talent.

Building capabilities

Core capabilities are being rolled out across the Group through The Zurich Way (TZW). In addition we are developing a unique Zurich Curriculum, a 'way of life' that begins from an employee's first day, teaching core skills consistently throughout the organization.

TZW, our headline transformational program since 2004, has been repositioned in 2011 to further enhance the way we work, connect and collaborate at Zurich. TZW stands for a commitment to creating a global work environment where fresh ideas, successes and knowledge are actively exchanged. Our people have great ideas to improve the way we work, and TZW offers a simple mechanism to share those ideas, whether they are for a new product, a new service, or a smarter process.

Since its relaunch in summer 2011, TZW has established a global network with 100 subject matter experts. At the core of this effort is the TZW Exchange, an intranet-based knowledge platform that fosters collaboration and engagement across the enterprise. The TZW Exchange helps us to identify best practices throughout the Group, avoiding unnecessary duplication of effort. Next year, TZW will be elevated to a higher level by further embedding best practice sharing to manage corporate knowledge in a standardized and reusable way.

A responsible corporation

Being a responsible company is fundamental to our long-term sustainability and integral to how we do business. We are committed to creating sustainable value for our shareholders, our customers, our employees and the communities in which we live and work. We focus on areas related to our core competencies so that we can apply our insurance and risk management expertise to enhance our contribution to society.

The foundation of our commitment to corporate responsibility is Zurich Basics, which sets out our values and our code of conduct. The commitments made in Zurich Basics were reinforced when we became a signatory of the UN Global Compact in 2011. By signing the UN Global Compact, Zurich has committed to embrace, support and enact, within our sphere of influence, a set of core values in the areas of human rights, labor standards, the environment and anti-corruption. These principles are wholly consistent with the values and code of conduct enshrined in Zurich Basics, which you can read on our website at www.zurich.com/basics.

To ensure that we live up to our corporate responsibility commitments, the Group Executive Committee (GEC) established a Corporate Responsibility (CR) Working Group at the start of 2011. The CR working group advises the GEC on strategy, priorities and objectives and tracks the Group's CR performance. Our three business segments, Group Operations, Investment Management and other key functions are represented in the working group to ensure that corporate responsibility is embedded in the way we do business.

For more information on our Corporate Responsibility activities in 2011, please refer to the Annual Review.

Sticking to our principles

Zurich is one of the few companies in our industry that has not reported a loss in any quarter since the global economic downturn began in 2008. This has only been possible because we have stuck with our fundamental principles in executing our strategy. We focus on our core business, applying financial discipline and operational excellence in everything we do.
We will continue with this approach going forward.

Our strategy

Measuring our performance

In addition to our Group strategic aspirations we have set targets for each of our three segments.

Group strategic aspirations

Strategic target of 16% Business Operating Profit (after tax) Return on Equity (BOPAT-ROE)

Deliver attractive Total Shareholder Return (TSR)

Segment targets

General Insurance

- Improve combined ratio by 3-4 points relative to global competitors by 2013 while contributing to the Group's strategic BOPAT-ROE target of 16%
- Reduce expenses (excluding commissions) by 7% or at least USD 350m on a run-rate basis by 2013 (included in the USD 500m Group target)
- Hold market position without compromising on profitability

Global Life

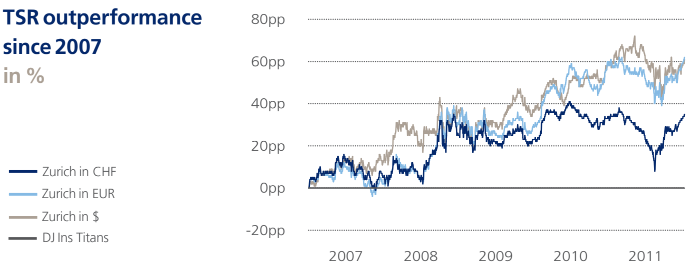
- Top 5 European-based global insurer by New Business Value (NBV)
- 30% of NBV from Asia-Pacific and Middle East (APME) and Latin America
- Cash generative while self-funding organic growth

Farmers

- Top quartile growth performance of the Farmers Exchanges among the 12 largest U.S. personal lines companies
- Increase market share for the Farmers Exchanges
- Improve retention in the Farmers Exchanges by 3 points to close the gap relative to top-tier U.S. personal lines competitors

Performance		Commentary
BOPAT-ROE	**10.2%** (2010: 12.9%)	• Should the current environment persist, achieving a return of around 2 percentage points below our strategic target is more realistic.

TSR outperformance since 2007
in %



• Zurich has clearly outperformed the benchmark Global Insurance Titans index in TSR terms since 2007 by approximately 35 percent in Swiss franc terms, or about 60 percent in U.S. dollar or euro terms.

Performance highlight	Commentary
Combined ratio **98.8%** (2010: 97.9%)	• Continued underwriting discipline and portfolio reshaping actions drove consistent and strong improvement in the underlying loss ratio.
Share of new business value, after tax, in APME and Latin America **26%** (2010: 19%)	• Growth in Latin America came from the individual protection and Corporate Life & Pensions business, while in APME growth was driven by the corporate savings business and the International/Expats pillar.
Gross written premiums in the Farmers Exchanges USD **18,297**m (2010: USD 18,131m)	• Growth in gross written premium in the Farmers Exchanges was driven by premium growth in nearly all active lines of business.

Our performance

In 2011 we delivered a good result for our shareholders by executing on our underwriting strategies, improving our customer orientation and protecting our strong capital position.

A challenging environment
2011 was one of the most expensive years on record for catastrophe-related insured losses, characterized by devastating earthquakes and exceptionally frequent weather-related events. Challenging economic and market conditions also prevailed over the year, with subdued economic activity in mature markets and significant volatility in financial markets globally. Nevertheless our Group performed well and delivered robust cash flows. We executed on our strategy and built a platform for future growth through operational transformation and transactions like our joint venture with Banco Santander in Latin America, the acquisition of Malaysian Allied Assurance Berhad and our renewed distribution agreement with Deutsche Bank in Germany and Italy.

Strength and stability
The Group's capital position remains strong with shareholders' equity of USD 31.6 billion at broadly the same level as December 31, 2010. In March 2011, Moody's Investors Service upgraded the insurance financial strength rating of Zurich Insurance Company Ltd to Aa3 from A1 and also upgraded its debt ratings. These stable results and strong balance sheet have enabled the Board of Directors to propose a dividend of CHF 17.00 per share, demonstrating the Group's ongoing commitment to sustained shareholder value.

Net income attributable to shareholders increased by USD 339 million to USD 3.8 billion, or by 10 percent, generating a return on equity of 11.9 percent, up 0.6 percentage points compared with 2010. The overall result benefited from net capital gains including the gain realized on the sale of part of the Group's investment in New China Life Insurance Co., Ltd, as well as valuation gains on derivatives held for economic hedging, which mitigated business, investment and balance sheet risks.

For our Group overall, business operating profit decreased by USD 608 million to USD 4.3 billion, or by 12 percent in U.S. dollar terms and 14 percent on a local currency basis. Our business operating profit after tax return on equity was 10.2 percent.

Room to grow
We executed on our strategy and built platforms for future growth through transactions like our acquisition of composite insurer Malaysian Allied Assurance Berhad.

Discipline
Robust and sustained underwriting discipline produced strong improvements in the underlying loss ratio at General Insurance, partially compensating for losses from catastrophes and weather-related events.

For more information
www.zurich.com/aboutus

General Insurance

Business operating profit generated by General Insurance decreased by USD 402 million to USD 2.3 billion, or by 15 percent in U.S. dollar terms and 19 percent on a local currency basis. Robust and sustained underwriting discipline produced strong improvements in the underlying loss ratio, partially compensating for losses from catastrophes and weather-related events. Major catastrophe losses in 2011 of USD 1.0 billion arose from floods and earthquakes in the Asia-Pacific region and a hurricane in the U.S. before the Group's aggregate catastrophe reinsurance recovery. By comparison, major catastrophe losses in 2010 were USD 275 million due to the earthquake in Chile and floods in Australia.

These strong results point to our continued emphasis on understanding catastrophe risk. Our activities in this area range from helping customers assess and mitigate catastrophe risks before they strike, to rebuilding and implementing higher safety and sustainability standards in their aftermath. Our Catastrophe Management team established a dedicated function this year to help corporate customers estimate their exposure to catastrophe risk, assess potential losses, and identify where they have risk accumulations by regions and/or perils. Such reviews encourage catastrophe risk awareness and preparedness, spur improvements to risk management practices and insurance structure (including captive cover), and help flesh out business continuity plans and mitigate losses when catastrophes strike.

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

The development of business volumes over the year reflects that our focus on achieving selective growth and increased profit margins through disciplined underwriting has remained unchanged. This re-shaping is concentrating our portfolio on the most profitable and strategic lines of business in mature markets and supporting investment in emerging markets.

Global Life

Global Life business operating profit decreased by USD 121 million to USD 1.4 billion, or by 8 percent in U.S. dollar terms and 14 percent on a local currency basis. Increased fee income from higher average assets under management plus higher margins from protection business were more than offset by higher costs related to investments in the global operations strategy, lower investment margin due to the continuing low interest rate environment, and accelerated deferred acquisition cost amortization resulting from lower European equity markets and interest rates compared with December 31, 2010.

Global Life gross written premiums, policy fees and insurance deposits remained flat at USD 27.7 billion in

Our performance *continued*

U.S. dollar terms but decreased by 5 percent on a local currency basis. Volume increases were achieved in the UK as well as in strategic growth markets of Latin America and Asia-Pacific and Middle East, driven by sales of single premium policies in Corporate Life & Pensions and Private Banking Client Solutions. This was offset by lower sales of single premium policies in Ireland, Spain and Germany as difficult market conditions persisted in those countries and by the impact of the divestment of the jointly owned insurance operations of Caixa Sabadell in Spain in 2010.

The results in Global Life show that our progress is on track in terms of generating an increasing share of new business value in Latin America and Asia-Pacific and Middle East. With the acquisition of MAA and joint venture with Banco Santander we expect this trend to accelerate, in addition to other growth and cash flow objectives set by Global Life.

Farmers
Farmers business operating profit decreased by USD 200 million to USD 1.5 billion, or by 12 percent. Farmers Management Services business operating profit increased by USD 5 million to USD 1.4 billion mainly driven by a reduction in operating expenses and 21st Century expenses in 2011 offset in part by lower revenues resulting from the planned run-off of the 21st Century agency auto book of business in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. Farmers Re business operating profit decreased by USD 205 million to USD 116 million, or by 64 percent, reflecting the net reduction in the All Lines Quota Share reinsurance agreement (All Lines agreement) with the Farmers Exchanges, as well as high weather-related losses in the U.S. in 2011, higher loss trends, and reduced investment income.

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

Despite the effect of the run-off of the 21st Century agency auto book of business, gross written premiums in the Exchanges increased by USD 166 million to USD 18.3 billion. This was driven by premium growth in nearly all active lines of business, reflecting the acceleration of the underlying growth momentum during the latter part of 2011. Such steady progress reflects our success in repositioning Farmers for an environment that is increasingly driven by competition on the basis of price, service, ease of doing business, brand awareness, and web sales capabilities.

Repositioning
Farmers is prepared to compete in an environment that is increasingly driven by competition on the basis of price, service, ease of doing business, brand awareness, and web sales capabilities.

Rapid progress
The results in Global Life show that our progress is on schedule in terms of generating an increasing share of new business value in Latin America and Asia-Pacific and Middle East. With recent acquisitions that trend is only expected to grow.

Our strategic direction confirmed
Our performance in 2011, combined with our strong capital position and cash flow generation, has reconfirmed our Group strategy. We remain focused on achieving a business operating profit after-tax return on equity of 16 percent, though in the current environment achieving a return of around two percentage points below our strategic target is more realistic. We also remain committed to an attractive and sustainable dividend.

Clear principles will continue to underpin the execution of that strategy: we focus on our core business of insurance, a commitment which we intend to reflect in our proposed name change to Zurich Insurance Group, Ltd. We continue to take an economic, risk-based decision-making approach. We manage our business on a solid AA basis, and we invest in people and processes, to ensure that we have the talent in-house to rise to any challenges. By these means we aim to advance steadily toward our aspiration of becoming the best global insurer as measured by our customers, our employees and our shareholders.

Leveraging our strengths
These strong results point to our continued emphasis on understanding catastrophe risk. Our activities in this area range from helping customers assess and mitigate catastrophe risks before they strike, to rebuilding and implementing higher safety and sustainability standards in their aftermath.

Governance

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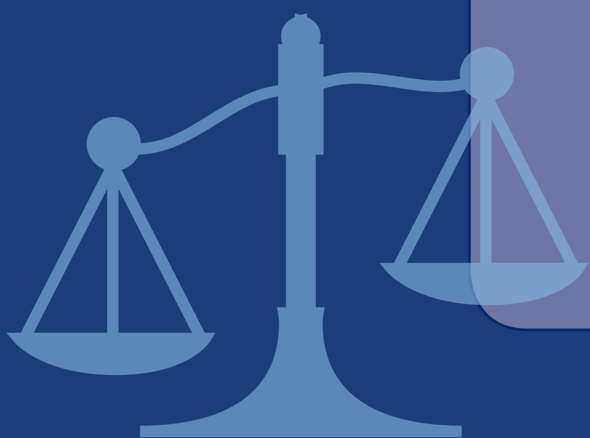

Corporate governance report

Good corporate governance helps Zurich create sustainable value for the benefit of its shareholders, customers, employees and other stakeholders.

The Corporate governance report describes the structures, rules and processes that we have put into place to provide for effective governance by Zurich's Board of Directors and Management. It also reports on the work of the Board of Directors and its committees.

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Zurich Financial Services Ltd is committed to effective corporate governance for the benefit of its shareholders, customers, employees and other stakeholders based on the principles of fairness, transparency and accountability. Structures, rules and processes are designed to provide for proper organization and conduct of business within the Zurich Financial Services Group (the 'Group' or 'Zurich') and to define the powers and responsibilities of its corporate bodies and employees.

This report describes the Group's approach to corporate governance and illustrates the key elements of corporate governance within the Group. It includes the information required by the Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange (as of October 29, 2008, effective July 1, 2009). It also explains how, in 2011, the Group complied with the Swiss Code of Best Practice for Corporate Governance, issued in 2002 by economiesuisse, as amended in October 2007. Furthermore, the Group continues to publish a Risk Management and Internal Control Statement (see pages 46 and 47) in accordance with the UK Turnbull Guidance.

The Zurich Financial Services Group has been under group supervision by the Swiss Financial Market Supervisory Authority (FINMA) and its predecessor authority the Federal Office for Private Insurance (FOPI) since a decree of April 2001. In its recent decree of December 28, 2011, FINMA has clarified that Zurich is subject to insurance group supervision according to article 64 et seq. of the Swiss Insurance Supervision Law ("ISL") and does not qualify as a conglomerate. The ISL requires Swiss insurance companies and groups to establish and maintain strong governance and risk management systems that are appropriate to their business activities as well as effective internal control systems. It prescribes the calculation of a risk based solvency margin at Group and legal entity level, pursuant to the Swiss Solvency Test (SST), and additionally a Solvency I margin (expected to become redundant when Swiss insurance supervision is acknowledged equivalent to the EU's Solvency II regulations). The reporting of all major intra-group transactions is also part of Swiss group supervision. In addition to the group supervision exercised by FINMA and its supervision over Zurich Insurance Company Ltd and Zurich Life Insurance Company Ltd, the insurance subsidiaries and remaining financial services entities of the Zurich Group are supervised by relevant local supervisory authorities.

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

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

This report basically follows the recommended structure outlined in the Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange. The chapter on compensation, shareholdings and loans to Directors and the members of the GEC is dealt with in a separate report, the Remuneration Report (see pages 48 to 73), which complements this Corporate Governance Report and also includes the information as required by the Circular 2010/1 on remuneration schemes (minimum standards for remuneration schemes of financial institutions) issued by the Swiss Financial Market Supervisory Authority (FINMA) on October 21, 2009.

Group structure and shareholders

Operational Group structure

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

Corporate governance report *continued*

The Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both lines of business and geography, which is mirrored in the areas of responsibilities assigned to the members of the GEC. The GEC is headed by the Group CEO. The business segments General Insurance, Global Life, and Farmers as well as the Chief Financial Officer, the Chief Investment Officer, the Chief Risk Officer, the Chief Administrative Officer and the Group Head of Operations are represented on the GEC. The geographic regions of Europe , Americas and Asia-Pacific & Middle East including Africa are represented by Regional Chairmen who focus on stakeholder management and business development in their regions. For further information on the GEC see pages 29, and 37 to 41.

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

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

- Global Life pursues a strategy with market-leading propositions in unit-linked and protection products through global distribution and proposition pillars to develop leadership positions in its chosen markets.

- Farmers provides through Farmers Group, Inc. (FGI) and its subsidiaries non-claims related management services to the Farmers Exchanges. FGI receives fee income for the provision of services to the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. a wholly owned subsidiary of the Group. This segment also comprises the Farmers Re business which includes only reinsurance assumed from the Farmers Exchanges by the Group. The Farmers Exchanges are prominent writers of personal lines and small commercial lines business in the United States.

- Other Operating Businesses predominantly consist of the Group's headquarter and holding and financing activities. In addition, certain alternative investment positions not allocated to business operating segments are included within Holding and Financing.

- Non-Core Businesses include insurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. Non-Core Businesses also include the Group's banking activities. Non-core businesses are mainly situated in the U.S., Bermuda, the United Kingdom and Ireland.

As of January 1, 2011, the Group implemented changes in the way it manages General Insurance and Global Life on a secondary level. The General Insurance segment is managed based on market-facing businesses, including: Global Corporate, North American Commercial, Europe, Latin America, Asia-Pacific, Middle East, and Africa. The Global Life segment is managed on a regional-based strucure within a global framework, including: North America, Latin America, Europe, Asia-Pacific and Middle East.

For more detailed information on the Group's segments and its geographic structure see note 29 of the Consolidated Financial Statements, starting on page 253. A detailed review of the respective business segment and division results during 2011 can be found in the Operating and Financial Review starting on page 76. Furthermore, an overview of the Group's business strengths and activities is contained in the Annual Review, available on Zurich's website www.zurich.com (http://www.zurich.com/internet/main/SiteCollectionDocuments/financial-reports/annual-review-2011-en.pdf).

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

A list of the Group's significant subsidiaries including additional information on significant subsidiaries that are listed can be found in this Annual Report on pages 275 to 277. For further information on the share listing of Zurich Financial Services Ltd, see the Shareholder Information on pages 338 to 342.

Significant shareholders

According to the rules regarding the disclosure of significant shareholdings of Swiss companies listed in Switzerland, disclosure has to be made if certain thresholds starting at three percent are reached or subsequently fall below the threshold. Call options and other financial instruments are added to any position in shares, even if they allow for cash settlement only. Under this regime, disclosure must be made separately for purchase positions (including shares, long call options and short put options) and sale positions (including long put options and short call options). The percentage thresholds are calculated on the basis of the total amount of voting rights according to the entry in the commercial register.

Zurich Financial Services Ltd is obliged to announce shareholdings by third parties in its shares when notification is received from a third party that a threshold has been reached. During 2011 the Group received several notifications by third parties that they have either exceeded or subsequently fallen below the threshold of three percent as a result of purchases or sales. As of December 31, 2011, Zurich Financial Services Ltd is not aware of any person or institution, other than BlackRock, Inc., New York, Norges Bank, Oslo and Aberdeen Asset Management PLC, Aberdeen, which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Financial Services Ltd representing three percent or more of its issued shares. The related announcements of these notifications can be found via the search facility on the SIX Disclosure Office's platform: http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

Zurich Financial Services Ltd is not aware of any person or institution which, as of December 31, 2011, directly or indirectly, alone or with others, exercised or was a party to any arrangements to exercise control over Zurich Financial Services Ltd.

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

Corporate governance report *continued*

Capital structure

Share capital

As of December 31, 2011, the ordinary share capital of Zurich Financial Services Ltd amounted to CHF 14,738,582.20 divided into 147,385,822 fully paid registered shares with a nominal value of CHF 0.10 each. The Board of Directors will propose to the shareholders at the Annual General Meeting on March 29, 2012, a dividend of CHF 17 per share. As the dividend payment is planned from capital contribution reserve, it will be exempt from Swiss withholding tax.

Authorized and contingent share capital

As of December 31, 2011, as specified in Article 5bis(1) of the Articles of Incorporation, the Board of Directors of Zurich Financial Services Ltd is authorized to increase the share capital by up to CHF 1,000,000, representing 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each until March 30, 2012. The contingent share capital of Zurich Financial Services Ltd, as specified in Article 5ter(1a) of the Articles of Incorporation, may be increased by an amount not exceeding CHF 1,000,000 by issuing up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each by exercising conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services Ltd or one of its Group companies in national or international capital markets, and/or option rights which are granted to the shareholders. Moreover, there is an additional contingent share capital of CHF 390,943.70 as specified in Article 5ter(2a) of the Articles of Incorporation, representing 3,909,437 fully paid registered shares with a nominal value of CHF 0.10 each, which may be issued to employees of the Group. For further information on the capital structure and the authorized and contingent share capital, see the Consolidated Financial Statements, note 22 on pages 227 to 229.

Changes of share capital during 2010

At the Annual General Meeting on March 30, 2010, the shareholders approved a share capital reduction of CHF 183,640.40 from CHF 14,747,306.80 to CHF 14,563,666.40 by canceling 1,836,404 registered shares. The effective date of the capital reduction was June 15, 2010. In addition, the shareholders approved an increase in the authorized share capital to a new maximum of CHF 1,000,000.00, allowing for enhanced financial flexibility of the company for future capital management, and an increase in the contingent share capital to a new maximum of CHF 500,000.00 which can be issued to employees of Zurich Financial Services Ltd and its subsidiaries in connection with employee participation plans.

During 2010, a total of 950,232 shares were issued to employees out of the contingent capital. As a result, on December 31, 2010, the share capital amounted to CHF 14,658,689.60 (146,586,896 shares) and both the authorized capital and the contingent share capital (as specified in Article 5bis(1) and in Article 5ter(1a) of the Articles of Incorporation, respectively) amounted to CHF 1,000,000.00 (10,000,000 shares) and the other contingent share capital (as specified in Article 5ter(2a) of the Articles of Incorporation) amounted to CHF 470,836.30 (4,708,363 shares). All shares are listed.

Changes of share capital during 2011

During 2011, a total of 798,926 shares were issued to employees out of contingent capital. As a result, on December 31, 2011, share capital amounted to CHF 14,738,582.20 (147,385,822 shares) and both the authorized capital and the contingent share capital (as specified in Article 5bis(1) and in Article 5ter(1a) of the Articles of Incorporation, respectively) amounted to CHF 1,000,000 (10,000,000 shares) and the other contingent share capital (as specified in Article 5ter(2a) of the Articles of Incorporation) amounted to CHF 390,943.70 (3,909,437 shares).

Summary of changes in the ordinary share capital over the last two years

	Share Capital in CHF	Number of Shares	Nominal Value in CHF
As of December 31, 2009	14,747,306.80	147,473,068	0.10
Capital reduction by canceling shares that have been bought back under the share buy-back program announced on February 13, 2008	183,640.40	1,836,404	0.10
Newly issued shares from contingent capital	95,023.20	950,232	0.10
As of December 31, 2010	14,658,689.60	146,586,896	0.10
Newly issued shares from contingent capital	79,892.60	798,926	0.10
As of December 31, 2011	14,738,582.20	147,385,822	0.10

For information on changes of share capital during 2009, see the Annual Report 2010 of Zurich Financial Services Ltd, pages 26 to 27, pages 142 to 143, and pages 207 to 208.

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

Some interests in shares are held by investors in the form of American Depositary Receipts (ADRs)[1]. As of December 31, 2011, investors held 19,688,410 ADRs (representing 1,968,841 Zurich Financial Services Ltd shares).

Profit sharing certificates
Zurich Financial Services Ltd has not issued any profit sharing certificates.

Limitations on transferability and nominee registrations
The Articles of Incorporation do not provide for any limitations on transferability except for the following:

Registration as a shareholder requires a declaration that the shareholder has acquired the shares in his or her own name and for his or her own account. Nominees holding Zurich Financial Services Ltd shares may for the benefit of, or as nominee for, another person be registered for up to 200,000 shares with voting rights notwithstanding that the nominee does not disclose the identity of the beneficial owner. A nominee, however, is entitled to be registered as shareholder with voting rights of more than 200,000 shares if the nominee undertakes to disclose the identity of each beneficial owner and to inform the beneficial owners about corporate actions, to consult as to the exercise of voting rights and pre-emptive rights, to transfer dividends and to act in the interests of and in accordance with the instructions of the beneficial owner.

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

Convertible bonds and options
Zurich Financial Services Ltd had no public convertibles or options outstanding as of December 31, 2011. For information on employee share option plans, see the Consolidated financial statements, note 24 on pages 236 to 238.

[1] Zurich Financial Services Ltd has established an American Depositary Share, or ADS, level 1 program in the United States. Under the program, The Bank of New York Mellon issues the ADSs. Each ADS represents the right to receive one-tenth of one Zurich Financial Services Ltd's share. Each ADS also represents securities, cash or other property deposited with The Bank of New York Mellon but not distributed to ADS holders. Zurich's ADSs are traded over the counter (OTC) and are evidenced by American Depositary Receipts, or ADRs. Since 1st July 2010, Zurich's ADRs are traded on "OTCQX", an electronic platform operated by OTC Markets Group Inc. (formerly "Pink OTC Markets Inc.") under the symbol ZFSVY. ADS holders are not treated as shareholders of Zurich Financial Services Ltd and are not able to directly enforce or exercise shareholder rights. Only The Bank of New York Mellon as Depositary of the level 1 program may exercise voting rights with respect to instructions received from beneficial owners of ADRs.

Board of Directors

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

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

2 Josef Ackermann
Vice Chairman of the Board,
Member of the Governance and Nominations Committee,
Member of the Remuneration Committee

3 Susan Bies
Director,
Member of the Risk Committee

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

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

6 Fred Kindle
Director,
Member of the Audit Committee

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

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

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

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

11 Rolf Watter
Director,
Member of the Audit Committee

Group Executive Committee

Our Management strives to help us meet our aspiration to become the best global insurer as measured by our shareholders, customers and employees.

1 Martin Senn
Chief Executive Officer

2 Mike Foley[1]
Chief Executive Officer
North America Commercial,
Regional Chairman of the Americas

3 Mario Greco
Chief Executive Officer
General Insurance

4 Kevin Hogan
Chief Executive Officer
Global Life

5 Axel P. Lehmann[2]
Chief Risk Officer,
Regional Chairman of Europe

6 Christian Orator
Chief Administrative Officer

7 Cecilia Reyes
Chief Investment Officer

8 Geoff Riddell
Regional Chairman of Asia-Pacific
& Middle East

9 Kristof Terryn
Group Head of Operations

10 Pierre Wauthier[3]
Chief Financial Officer

[1] Assumed role of Regional Chairman of the Americas on July 1, 2011.
[2] Assumed role of Regional Chairman of Europe on October 1, 2011.
[3] Assumed role of Chief Financial Officer on October 1, 2011.

Corporate governance report *continued*

Board of Directors

Members of the Board of Directors, as of December 31, 2011

Name	Nationality	Age	Position held	Year of initial appointment	Expiration of current term of office
Manfred Gentz	German	1942	Chairman of the Board Chairman of the Governance and Nominations Committee Member of the Remuneration Committee	2005	2012
Josef Ackermann	Swiss	1948	Vice Chairman of the Board Member of the Governance and Nominations Committee Member of the Remuneration Committee	2010	2012
Susan Bies	American	1947	Director Member of the Risk Committee	2008	2013
Victor Chu	British	1957	Director Member of the Governance and Nominations Committee	2008	2013
Thomas Escher	Swiss	1949	Director Member of the Remuneration Committee	2004	2012
Fred Kindle	Swiss	1959	Director Member of the Audit Committee	2006	2014
Armin Meyer	Swiss	1949	Director Member of the Governance and Nominations Committee Member of the Risk Committee	2001	2013
Don Nicolaisen	American	1944	Director Chairman of the Audit Committee Member of the Risk Committee	2006	2012
Vernon Sankey	British	1949	Director Chairman of the Remuneration Committee	1998[1]	2012
Tom de Swaan	Dutch	1946	Director Chairman of the Risk Committee Member of the Audit Committee	2006	2014
Rolf Watter	Swiss	1958	Director Member of the Audit Committee	2002	2013

[1] Mr Sankey was a member of several boards of the Group holding structure that was established in 1998 with the merger between B.A.T. Financial Services and Zurich Insurance Company. The Group holding structure originally consisting of Zurich Group Holding (then called Zurich Financial Services), Allied Zurich p.l.c. and Zurich Allied AG was reorganized in October 2000. Since this reorganisation he has served on the Board of Zurich Financial Services Ltd.

All of the current Directors have served on the Board throughout 2011. All Directors of Zurich Financial Services Ltd are also members of the board of directors of Zurich Insurance Company Ltd. Mr. Gentz also serves as chairman of that board. In addition, Mr. de Swaan is a member of the board of directors of Zurich Insurance plc. Mr. Nicolaisen and Mrs. Bies are members of the board of directors of Zurich Holding Company of America, Inc. (ZHCA). With the exception of Mrs. Bies, Mr. Nicolaisen and Mr. de Swaan, the Directors have no further board memberships within the Group.

Fritz Gerber is the Honorary Chairman of Zurich Financial Services Ltd. He was chairman of Zurich Insurance Company between 1977 and 1995 and its Chief Executive Officer between 1977 and 1991. In recognition of his leadership and services to that company, he was appointed Honorary Chairman. Such designation does not confer Board membership or any Director's duties or rights, nor does it entitle him to any Director's fees.

Biographies

Manfred Gentz, born 1942, studied law at the universities of Berlin and Lausanne and graduated with a doctorate in law from the Berlin Free University. In 1970, he joined Daimler-Benz AG where he held various positions. In 1983, he was appointed member of the board of management of Daimler-Benz AG, responsible at first for human resources. From 1990 to 1995 he was chief executive officer of Daimler-Benz Interservices (debis) in Berlin and subsequently became chief financial officer of Daimler-Benz AG in 1995. In December 1998, Mr. Gentz was appointed to the board of management of DaimlerChrysler AG, where he was in charge of Finance and Controlling until December 2004. From 1987 to 1995 he served on the board of supervisors of Agrippina Versicherung AG and from 1996 to 2005 he was a member of the board of supervisors of Zürich Beteiligungs-Aktiengesellschaft (Deutschland). From 1985 to 2005 Mr. Gentz was on the board of supervisors of Hannoversche Lebensversicherung AG (from 1990 as its vice chairman). From May 2005 until March 2006, he was chairman of the supervisory board of Eurohypo AG. He served as a member of the board of supervisors of adidas AG from 2004 until May 2009 and of DWS Investment GmbH from December 1995 until April 2009. In addition, Mr. Gentz was appointed a member of the board of supervisors of the German Stock Exchange (Deutsche Börse AG) in May 2003 and as its chairman in December 2008. He also serves as a member of the executive board of ICC (International Chamber of Commerce), Paris, and serves as chairman of its German National Committee. In addition, he is active in a number of scientific and cultural institutions.

Josef Ackermann, born 1948, studied economics and social sciences at the University of St. Gallen, and in 1977, after obtaining his doctorate, he joined Schweizerische Kreditanstalt (SKA). In 1990, he was appointed to the executive board of SKA, becoming its president in 1993. In 1996, Mr. Ackermann joined the management board of Deutsche Bank AG, where he was responsible for the investment banking division. In 2002, he became spokesman of the management board and chairman of the group executive committee. On February 1, 2006, he was appointed chairman of the management board. Mr. Ackermann is a member of the supervisory board of Siemens AG (second deputy chairman), Germany, a non-executive member of the board of directors of Royal Dutch Shell plc, The Netherlands, and vice-chairman of the board of directors of Belenos Clean Power Holding Ltd, Biel. He also plays an active role in the Institute of International Finance (chairman of the board of directors), the World Economic Forum (co-chairman of the foundation board), the St. Gallen Foundation for International Studies (chairman), the Foundation Lindau Nobelprizewinners Meetings at Lake Constance (Honorary Senate member) and the Metropolitan Opera New York (advisory director). In 2007, Mr. Ackermann accepted an appointment as Visiting Professor in Finance at the London School of Economics. In July 2008, he was appointed Honorary Professor at the Johann Wolfgang Goethe University Frankfurt. Furthermore, he is an Honorary Fellow of the London Business School and holds an Honorary Doctorate from the Democritus University of Thrace in Greece.

Susan Bies, born 1947, graduated with a BS degree from the State University College at Buffalo, New York, and with a MA degree from Northwestern University, Evanston, Illinois, where she later gained a PhD. She began her career in 1970 as regional and banking structure economist with the Federal Reserve Bank of St. Louis, Missouri, and two years later became assistant professor of economics at Wayne State University, Detroit, Michigan. In 1977, she moved to Rhodes College, Memphis, Tennessee in a similar role, and in 1979 joined First Tennessee National Corporation in Memphis, where she remained until 2001. During the early years, her areas of responsibility included tactical planning and corporate development. In 1984 she became chief financial officer and chairman of the asset/liability committee. In 1995, she became executive vice president of risk management, and auditor and chairman of the executive risk management committee, as well as continuing her duties with the asset/liability committee. From 2001 until 2007, she was a member of the Board of Governors of the Federal Reserve System. Between 1996 and 2001, Mrs. Bies was a member of the Emerging Issues Task Force of the Financial Accounting Standards Board. From 2007 to 2008 she was a member of the Securities and Exchange Commission’s advisory committee on improving financial reporting, and chairman of its substantive complexity sub-committee. In June 2009, Mrs. Bies became a member of the board of directors of The Bank of America Corporation.

Victor L.L. Chu, born 1957, graduated with a LL.B from University College, London in 1979. He is admitted to practice law in England and Hong Kong. Since 1982 he has practiced in the field of corporate, commercial and securities laws, with special emphasis on China and regional investment transactions. From 1995 to 2000, Mr. Chu was deputy secretary-general of the International Bar Association. Since 1988 he has served as chairman of First Eastern Investment Group, a leading direct investment firm focusing on China. He is also chairman of First Eastern Investment Bank Limited and FE Securities Limited. Over the past 20 years he has served at various times as director and council member of the Hong Kong Stock Exchange, a member of the Hong Kong Takeovers and Mergers Panel, a member of the Hong Kong Securities and Futures Commission’s advisory committee and a part-time member of the Hong Kong Government’s Central Policy Unit. He is currently a foundation board member of the World Economic Forum and co-chairs the Forum’s International Business Council. Mr. Chu is also vice chairman of Asia House in London, a trustee of the WWF in Hong Kong, and a member of the Mayor of London’s International Business Advisory Council.

Corporate governance report *continued*

Mr. Chu's other civic associations include service on the advisory bodies of the International Crisis Group, Chatham House, the Beijing Music Festival Foundation and the Atlantic Council of the USA.

Thomas Konrad Escher, born 1949, graduated in electrical engineering and in business administration from the Swiss Federal Institute of Technology (ETH) and joined IBM in 1974. In subsequent years, his career led him through various managerial line functions with responsibilities for markets and client relationships overseas, in different European countries and in Switzerland. In 1996, Mr. Escher joined Swiss Bank Corporation and was – as a member of the executive board – CEO for the major market region in Switzerland and for the information technology organization. Following the merger of Swiss Bank Corporation and Union Bank of Switzerland to form UBS AG in 1998, he headed the IT business area of the wealth management and business banking division through mid-2005 as a member of the group managing board. As of July 1, 2005, Mr. Escher assumed the function of vice chairman in the Business Group Global Wealth Management & Swiss Bank of UBS AG. In addition, Mr. Escher is a member of the board of the Greater Zurich Area Foundation. This organization engages in the active marketing of the City of Zurich and its relevant environment as domicile to foreign business.

Fred Kindle, born 1959, graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a master's degree in engineering. He worked as a marketing project manager with Hilti AG in Liechtenstein from 1984 until 1986, and then enrolled at Northwestern University, Evanston, Illinois, in the United States, where he earned an MBA. From 1988 until 1992 he was a consultant with McKinsey & Company in New York and Zurich. He then joined Sulzer Chemtech AG in Switzerland as the head of the Mass Transfer Department and in 1996 became the head of the Product Division. In 1999 he was appointed CEO of Sulzer Industries, one of the two operating groups of Sulzer AG. Two years later he became CEO of Sulzer AG, where he also served as a board member. After joining ABB Ltd. in 2004, Mr. Kindle was appointed CEO of ABB Group in January 2005, a position he held until February 2008. He then became a partner of CD & R LLP, a private equity firm based in New York and London. In his function as a partner of that firm Mr. Kindle serves as the chairman of Exova Ltd., Scotland, BCA Group, United Kingdom, and as a director of Rexel SA, France. He is also on the board of VZ Holding Ltd, Zurich and Stadler Rail AG, Bussnang.

Armin Meyer, born 1949, graduated with a PhD in electrical engineering from the Swiss Federal Institute of Technology (ETH) and joined BBC Brown Boveri Ltd. in 1976 as a development engineer. In 1980, he became head of research and development for industrial motors, and in 1984, he took over as head of the international business unit for electrical power generators. In 1988, Mr. Meyer became president of ABB Drives Ltd. and in 1992, president of ABB Power Generation Ltd. From 1995 until 2000, he was executive vice president of ABB Ltd. and a member of that group's executive committee. In 1997, he became a member of the board of directors of Ciba Specialty Chemicals at the time of its spin-off from Novartis. He became chairman of the board of Ciba Specialty Chemicals in autumn 2000 and served in that role until April 2009. From January 1, 2001 until December 31, 2007, in addition, he also acted as chief executive officer. In April 2010, Mr. Meyer became a member of the board of directors of Amcor Limited in Melbourne, Australia. Mr. Meyer was a member of the executive committee and the foundation board of the international Institute for Management Development, IMD, in Lausanne, Switzerland until December 2011. From 2001 to 2008, he was a member of the European Chemical Industry Council (Cefic) in Brussels, Belgium.

Don Nicolaisen, born 1944, graduated from the University of Wisconsin-Whitewater with a BBA degree and joined Price Waterhouse (which subsequently became PricewaterhouseCoopers), where he was admitted to partnership in 1978. He served in various capacities, including as an auditor and as chairman of PricewaterhouseCoopers' financial services practice. He led that company's national office for accounting and Securities and Exchange Commission services from 1988 to 1994 and served on both the U.S. and global boards from 1994 to 2001. From September 2003 to November 2005, he was chief accountant of the U.S. Securities and Exchange Commission and was principal adviser to the Commission on accounting and auditing matters. He is a member of the board of directors of Verizon Communications Inc., Morgan Stanley and MGIC Investment Corporation. In addition, he is on the board of advisors of the University of Southern California Leventhal School of Accounting.

Vernon Louis Sankey, born 1949, graduated with a MA degree from Oriel College, Oxford and joined Reckitt and Colman in the UK in 1971, subsequently working in France, Denmark, the UK and the U.S. He was appointed to the board of directors in 1989 and was chief executive officer of that company from 1991 to 1999. From 2000 until September 2007 he was chairman of Photo-Me International plc. From 2001 until June 2007 he was a director of Cofra AG, Switzerland, and from 2004 until July 2007 of Taylor Woodrow plc. Between 2005 and 2008 he served as a director of Vividas Group plc. As of January 1, 2006, he has been a member of the supervisory board of Atos Origin SA, Paris, and since October, 2006 of Firmenich SA, Geneva, where he became chairman in October 2008. He was chairman of Thomson Travel Group plc until August 2000, of Gala Group Holdings plc until February 2003 and of The Really Effective Development Company Ltd until March 2006. He also was a director of Pearson plc until April 2006 and is a former board member of the UK's Food Standards Agency. In addition to his board roles, he is also an advisor to a number of other companies.

Tom de Swaan, born 1946, graduated from the University of Amsterdam with a master's degree in economics. He joined De Nederlandsche Bank N.V. in 1972, and from 1986 until 1998 was a member of the governing board. In January 1999, he became a member of the managing board and chief financial officer of ABN AMRO Bank. He retired from ABN AMRO on May 1, 2006, but continued as an advisor to the managing board until June 2007. Mr. de Swaan is a non-executive member of the board of GlaxoSmithKline Plc and chairman of its audit committee. He is a member of the supervisory board of Royal DSM, a Netherlands-based chemical group. Since May 3, 2007, he has also been the vice chairman of the supervisory board of Royal Ahold, a global retail chain, and since May 10, 2008, he has been chairman of the supervisory board of Van Lanschot NV, the holding company of F. van Lanschot Bankiers, an independent Dutch bank. Since October 1, 2010, he has been a member of the public interest committee of KPMG ELLP. From 1987 to 1988, he was chairman of the Amsterdam Financial Center, and from 1995 to 1997 chairman of the banking supervisory sub-committee of the European Monetary Institute. He was also a member of the Basel Committee on Banking Supervision from 1991 to 1996, its chairman from 1997 to 1998, and a non-executive director on the board of the UK's Financial Services Authority from January 2001 until the end of 2006. Mr. de Swaan is also a director of a number of non-profit organizations. Among other positions, he is chairman of the board of the Netherlands Cancer Institute, a member of the board of the International Franz Liszt Piano Competition, and chairman of the advisory board of the Rotterdam School of Management.

Rolf Urs Watter, born 1958, graduated from the University of Zurich with a doctorate in law and holds a master of laws degree from Georgetown University in the U.S. He is admitted to the bar of the Canton of Zurich. Since 1994 he has been a partner in the law firm Bär & Karrer in Zurich and was a member of its executive board from 2000 and an executive director upon the incorporation of Bär & Karrer AG in 2007 until September 2009. He is a non-executive director (currently serving as an interim chairman of the board) of Nobel Biocare Holding AG (since 2007), of Syngenta AG (since 2000), UBS Alternative Portfolio AG (since 2000) and A.W. Faber-Castell (Holding) AG (since 1997). He was formerly a non-executive chairman of Cablecom Holding AG (2004-2008) and non-executive director of Centerpulse AG (2002-2003), of Forbo Holding AG (1999-2005) and of Feldschlösschen Getränke AG (2001-2004). He is a part-time professor at the Law School of the University of Zurich. In addition, he is a member of the SIX Regulatory Board and of its Disclosure Commission of Experts. He also serves as chairman of two charity institutions.

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

Elections and terms of office

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

At the Annual General Meeting on March 31, 2011, Mr. Gentz was re-elected to the Board of Directors for a term of one year. Messrs. de Swann and Kindle were re-elected to the Board for a term of three years. At the Annual General Meeting to be held on March 29, 2012, the terms of office of Messrs. Gentz, Ackermann, Escher, Nicolaisen and Sankey will expire. Messrs. Ackermann, Escher and Nicolaisen have been proposed for re-election by the Board for a term of 3 years each. Mr. Gentz and Mr. Sankey will not stand for re-election for the Board of Directors.

Alison Carnwath and Rafael del Pino have been nominated for election at the general meeting of shareholders on March 29, 2012, as additional members to the Board of Directors of Zurich Financial Services Ltd for a term of 2 years.

Alison Carnwath, born 1953, graduated in Economics and German from the University of Reading in 1975. She began her career with Peat Marwick Mitchell, now KPMG, where from 1975 to 1980 she trained, qualified and practiced as a chartered accountant. From 1980 to 1982 she worked as a corporate financier for Lloyds Bank International. From 1982 to 1993 she was Assistant Director, then Director at J. Henry Schroder Wagg & Co in London and New York. From 1993 to 1997 Ms. Carnwath was a Senior Partner at the financial advisory firm Phoenix Partnership. The firm was taken over by Donaldson Lufkin Jenrette (DLJ) in late 1997; Ms. Carnwath continued working for DLJ until 2000. Ms. Carnwath has held several board offices. From 2000 to 2005 she was the Chairman of the board of Vitec Group plc, from 2001 to 2006 a director of Welsh Water, from 2004 to 2007 of Friends Provident plc,

Corporate governance report *continued*

from 2004 to 2007 of Gallaher Group, and from 2007 to 2010 she was the independent Chairman of MF Global Inc. In July 2010 Ms. Carnwath was awarded an honorary doctorate from the University of Reading. Ms. Carnwath is a Senior Advisor of Evercore Partners and an independent Chairman of ISIS Equity Partners LLP. She is Chairman of the Board of Land Securities Group plc and a member of the Board of Barclays plc, Man Group plc and PACCAR Inc.

Rafael del Pino, born 1958, graduated in Civil Engineering from the Universidad Politécnica Madrid in 1981, and obtained an MBA from MIT Sloan School of Management in 1986. He began his career with Ferrovial before becoming a consultant with Boston Consulting Group in Paris, and returned in 1986. From 1992 to 1999 he was CEO of Grupo Ferrovial, and in 1999 he was appointed Executive Vice Chairman. In 2000 Mr del Pino assumed the position of Executive Chairman and Managing Director of Ferrovial S.A.. During his career at Ferrovial he has transformed the company from a mostly domestic construction company to a leading provider of infrastructure services around the world. Mr del Pino is a member of the board of Banesto (Banco Español de Crédito S.A.) and the International Advisory Board of Blackstone. He also maintains contact with the academic world through membership on the MIT Energy Initiative's External Advisory Board, the MIT Corporation, the International Advisory Board of IESE and the European Advisory Board of Harvard Business School.

Internal organizational structure

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

The Board consists entirely of Directors who are non-executive, independent from the Management, and who have never held an executive position in the Group. The Governance and Nominations Committee annually reviews the independence of the Board members and reports its findings to the Board for final determination. Board members are also subject to rules and regulations to avoid conflicts of interest and the use of inside information. A self-assessment of the full Board is carried out once a year. In 2011, the Board's self-assessment was carried out on the basis of a comprehensive questionnaire. A detailed report was produced for and considered by the Board.

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

The CEO attends the Board meetings ex officio. Members of the GEC are regularly invited by the Board to attend Board meetings. Other executives attend these meetings from time to time upon invitation by the Board. Most Board meetings include private sessions of the Board without the participation of Management.

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

The Board is required to meet at least six times each year; during 2011 it held 10 meetings (of which six were partly attended by tele-/videoconference and one was held over two days). One meeting was fully dedicated to the discussion of strategic topics. Five meetings lasted four or more hours per day, and the remaining five meetings took about three hours on average. In addition, the Board approved four circular resolutions.

In 2011, average attendance at Board meetings was 93 percent. The members of the Board spent additional time participating in Board Committee meetings and preparing for meetings in order to discharge their duties.

The Board may appoint committees for specific areas from among its members and establish terms of reference and rules with respect to delegated authority and reporting to the Board. The committees assist the Board in performing its duties. To the extent that the committees are not authorized to make resolutions, they discuss and propose matters to the Board to take appropriate actions and pass resolutions. In 2011, committee meetings lasted between one and three hours on average. The Board has the following standing committees, which regularly report to the Board and submit proposals for resolution by the Board.

The **Governance and Nominations Committee** is composed of four Board members. It oversees the Group's governance and measures it against best practice with a view to ensuring that the rights of the shareholders are fully protected. It also develops and proposes to the Board corporate governance guidelines and reviews them from time to time. The Governance and Nominations Committee is further entrusted with succession planning with respect to the Board, the CEO and members of the GEC. In this regard, it proposes the principles for the nomination and ongoing qualification of members of the Board and makes proposals to the Board on the composition of the Board, as well as the appointment of the Chairman, the Vice Chairman, the CEO and other members of the GEC. The Committee reviews the system for management development and supervises progress made in respect of succession planning. Final decisions for nominations and appointments are made by the Board, subject to shareholder approval, where so required. During 2011, the Governance and Nominations Committee met four times and particularly addressed the nomination and ongoing qualifications of the members of the Board of Directors and the succession planning for members of senior management. Average attendance at meetings of the Governance and Nominations Committee was 94 percent.

The **Remuneration Committee** comprises four members of the Board. The Remuneration Committee regularly evaluates the Group's remuneration system and the Remuneration Rules and, if appropriate, proposes respective amendments to the Board which is responsible for the design, implementation and monitoring of the Group's remuneration architecture. It also proposes the Directors' remuneration to the Board for approval. Based on the Remuneration Rules, it negotiates the terms and conditions of employment of the CEO and reviews those of other members of the GEC, as negotiated by the CEO, before submitting them to the Board for approval and liaises with the CEO on other important employment, salary and benefit matters. It also reviews performance relating to the senior management's short-term and long-term incentive plans. In order to ensure the risk-alignment of remuneration, Group Risk Management provides a review of risk factors to consider when overall performance for incentives is assessed, and the Chief Risk Officer is available to discuss these findings with the Remuneration Committee and the Board of Directors. To assist in the review of the remuneration structures and practices, the Remuneration Committee has retained its own independent advisors, Meridian and Aon Hewitt. The Remuneration Committee met five times in 2011 (one meeting took place together with the Risk Committee to jointly review the remuneration architecture particularly in the light of the FINMA Circular on Remuneration Schemes). Average attendance at meetings of the Remuneration Committee was 95 percent. Further details of the Group's remuneration governance and the Remuneration Rules are given in the Remuneration Report on pages 48 to 73.

The **Audit Committee** has four members, all of whom meet the relevant requirements with respect to independence and qualification. The Audit Committee charter provides that the Audit Committee as a whole should have (i) an understanding of IFRS and financial statements, (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience in preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those of Zurich Financial Services Ltd and the Group or experience in actively supervising one or more persons engaged in these activities, (iv) an understanding of internal controls and procedures for financial reporting, and (v) an understanding of audit committee functions. The Audit Committee met ten times in 2011. Average attendance at meetings of the Audit Committee was 93 percent.

The Audit Committee serves as a focal point for communication and oversight regarding financial accounting and reporting, internal control, actuarial practice, and compliance. It is responsible for reviewing the Group's auditing process (including establishing the basic principles relating to and making proposals with respect to the audit of Zurich Financial Services Ltd and the Group) and reviews the internal control systems. The external auditors, the internal auditors and appropriate members of the GEC and other executives attend its meetings in order to, among other things, discuss the auditors' reports, review and assess the auditing concept and the examination process, and assess the activities of internal and external auditors. For more information on the supervision and control of the external audit process, see page 44. At least annually, the Audit Committee, at least annually, reviews the standards of internal control, including the activities, plans, organization and the quality of internal audit and Group Compliance.

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

Statements regarding internal control and the procedures in place regarding internal control according to the UK Turnbull Guidance are given on pages 46 and 47.

The **Risk Committee,** consisting of four members, oversees the Group's risk management, in particular the Group's risk tolerance, including agreed limits that the Board regards as acceptable for Zurich to bear, the aggregation of agreed limits across the Group, the measurement of adherence to agreed risk limits, and the Group's risk tolerance in relation to anticipated capital levels. It further oversees the Group-wide risk governance framework, including risk management and control, risk policies and their implementation as well as the risk strategy, and the monitoring of operational risks. The Risk Committee also reviews the methodologies for risk measurement and the Group's adherence to its risk limits, and reviews the performance of the Risk Management function. It further reviews, with business management and

Corporate governance report *continued*

the Group risk management function, the Group's general policies and procedures, and ensures that effective systems of risk management are established and maintained. The Risk Committee receives periodic reports from Group Risk management and assesses whether significant issues of a risk management and control nature are being appropriately addressed by Management in a timely manner. For further information on risk governance see the Risk Review on pages 103 to 149. In 2011, the Risk Committee met seven times (once jointly with the Remuneration Committee to review the remuneration architecture particularly in the light of the FINMA Circular on Remuneration Scheme). Average attendance at meetings of the Risk Committee was 93 percent.

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

Areas of responsibility of the Board and Management

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

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

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

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

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

Furthermore, the Group has adopted and implemented a coordinated, formalized and consistent approach to risk management and control. Information concerning the Group's risk management processes is included in the Risk Review starting on page 103. In addition, the Risk Management & Internal Control Statement describes on pages 46 and 47 the Group's approach with regard to risk management and internal control according to the Turnbull Guidance.

The internal audit function and the external auditors as well as the compliance function also assist the Board in exercising its controlling and supervisory duties. Information on major areas of activities of these functions is set out on pages 43 to 46.

Group Management

Group Executive Committee

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

The GEC is headed by the Group CEO. As of December 31, 2011, members of the GEC included the Chief Financial Officer, the Chief Investment Officer, the Chief Risk Officer, the Chief Administrative Officer and the Group Head of Operations; in order to reflect both, lines of business and geography, the business segments General Insurance, Global Life, and Farmers, as well as the CEO of North America Commercial and the Regional Chairmen of Europe, Americas, and Asia-Pacific & Middle East were represented on the GEC.

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

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

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

In addition, to enhance its understanding and assessment of the challenges and risks Zurich may face, the Group continues to seek external expertise and perspective. As of the end of 2011, the Group had four panels of leading academics, business and industry experts to provide feedback and insight. They are not corporate bodies of the Group and have no decision-making powers. These panels provide expertise and advice to senior management or certain functions of the Group. In particular, the International Advisory Council is mandated to provide an external perspective and expertise to the CEO and to members of the GEC on the Group's growth and public policy strategies. The Investment Management Advisory Council offers feedback on Zurich's investment results and strategy and on achieving superior risk-adjusted returns relative to the liabilities for the Group's invested assets. The Natural Catastrophe Advisory Council provides insight into the patterns of occurrence, predictability and destructiveness of catastrophes, and feedback about Zurich's approach to such catastrophes in order to help improve the effectiveness of its underwriting and reinsurance purchasing. The Group's Climate Change Advisory Council provides insight and advice on issues associated with climate change.

Corporate governance report *continued*

Members of the GEC, as of December 31, 2011

Name	Nationality	Age	Position held
Martin Senn	Swiss	1957	Chief Executive Officer
Mike Foley	American	1962	Chief Executive Officer North America Commercial & Regional Chairman of the Americas
Mario Greco	Italian	1959	Chief Executive Officer General Insurance
Kevin Hogan	American	1962	Chief Executive Officer Global Life
Axel Lehmann	Swiss	1959	Chief Risk Officer & Regional Chairman of Europe
Christian Orator	Swiss/Austrian	1963	Chief Administrative Officer
Cecilia Reyes	Swiss/Philippine	1959	Chief Investment Officer
Geoff Riddell	British	1956	Regional Chairman of Asia Pacific & Middle East
Kristof Terryn	Belgian	1967	Group Head of Operations
Pierre Wauthier	French/British	1960	Chief Financial Officer

All current members of the GEC served throughout 2011 except for Pierre Wauthier. He was appointed Chief Financial Officer and member of the GEC effective October 1, 2011 succeeding Dieter Wemmer who had resigned from the GEC and his positions as the Chief Financial Officer and Regional Chairman of Europe effective September 30, 2011. Also, effective October 1, 2011, Axel Lehmann assumed the role of the Regional Chairman of Europe in addition to his role as Chief Risk Officer. Further, Mike Foley assumed the role of the Regional Chairman of the Americas for Zurich effective July 1, 2011 in addition to his role as CEO North America Commercial. Paul N. Hopkins retired from the GEC and his positions as Regional Chairman of the Americas for Zurch and Chairman of the Board of Farmers Group, Inc. effective June 30, 2011.

For information on contractual termination benefits, see page 43.

Biographies

Martin Senn, born 1957, received his commercial and banking diploma from the Business School in Basel, Switzerland and graduated from the International Executive Program at INSEAD in Fontainebleau and the Advanced Management Program at Harvard Business School. He is a trained banker and worked at the former Swiss Bank Corporation from 1976 to 1994 where his international career steps included treasurer in Hong Kong and regional treasurer for Asia and the Pacific region in Singapore before ultimately managing the company's Tokyo office. In 1994, he joined Credit Suisse where his executive roles included that of treasurer for the Head Office and Europe, chairman and turnaround manager of Credit Suisse Group Japan with a mandate to restructure and reposition all legal entities of the Group in Japan. In 2001, he became a member of the Credit Suisse Banking executive board and was appointed head of its Trading and Investment Services Division. From 2003 until 2006, he served as a member of the corporate executive board and as chief investment officer of the Swiss Life Group. Mr. Senn joined Zurich on April 1, 2006 as Chief Investment Officer and became a member of the Group Executive Committee on the same date. He was appointed Chief Executive Officer of the Group with effect from January 1, 2010. He is a member of the foundation board of Avenir Suisse and treasurer of the Zurich Association of Economics. In addition, he serves as the Honorary Consul of the Republic of Korea in Zurich and as a member of the board of directors of the Swiss-American Chamber of Commerce. Mr. Senn is also a member of the board of the Geneva Association and of the Institute of International Finance (IIF). Besides that, he is a representative of the Property and Casualty CEO Roundtable, a member of the Pan European Insurance Forum (PEIF), the European Financial Services Roundtable (EFR), the advisory board of Tsinghua School of Economics and Management, of the board of trustees of the Lucerne Festival and the board of directors of the Atlantic Council. He was previously a member of the board of directors of various banks and financial services institutions.

Mike Foley, born 1962, graduated in math and economics from Fairfield University, Connecticut. He joined the financial management training program of Armtek Corporation, Connecticut, in 1984, and later gained an MBA in marketing/finance from the JL Kellogg Graduate School of Management at Northwestern University in Evanston, Illinois. In 1989 he joined the Deepath Group investment banking firm in Lake Forest, Illinois, as an associate and became vice president responsible for managing the portfolio of equity investments in various acquired businesses. In 1993 he joined Electrocal, Inc. in Connecticut as president, and three years later moved to McKinsey & Company in Chicago, where he became a principal and later led its North American property/casualty insurance practice. He joined Zurich in 2006 as Chief Operating Officer of its North America Commercial business division, and in January 2008 was appointed CEO of that division and a member of the GEC. In July 2011, he assumed the additional role of Regional Chairman of the Americas. Mr Foley is Chairman of the Board of Zurich Holding Company of America, Inc. (ZHCA).

Mario Greco, born 1959, earned a graduate degree in economics from the University of Rome and completed a Master in International Economics and Monetary Theory at Rochester University, New York (USA). Mr. Greco started his professional career in management consulting, working with McKinsey & Company's Milan office from 1986 until 1994, becoming a partner in 1992 and a partner leader in the insurance segment. In 1995, he joined RAS (Allianz Group) in Milan as head of the Claims Division. He became general manager in charge of the insurance business the following year, and in 1998 was appointed managing director. In 2000, he became the company's chief executive officer, remaining in the position for four years. He was appointed head of Allianz's Life Sustainability business in Munich in 2004, and later that year he was appointed to Allianz AG's executive board, with responsibility for France, Italy, Spain, Portugal, Switzerland, Austria, Greece and Turkey. In April 2005, he joined the Sanpaolo IMI Group in Milan as the chief executive officer of EurizonVita, as part of a project to build up the Group's insurance and asset management businesses. In October 2005, he was appointed chief executive officer of EFG, the company holding the Sanpaolo IMI Group's investments in EurizonVita and Banca Fideuram, and Eurizon Capital. He joined Zurich on October 1, 2007, as the designated CEO Global Life, he became a member of the GEC and took on the roles of CEO Global Life in April 2008. In July 2010, he assumed the role of CEO General Insurance. Mr Greco is a member of the Board of Zurich Holding Company of America, Inc. He is also a member of the board of directors of Editoriale l'Espresso Group, Indesit and Saras.

Kevin Hogan, born 1962, graduated from Dartmouth College in Hanover, New Hampshire. He started his professional career in 1984 at AIG with American International Underwriters (AIU) in New York and subsequently held underwriting management positions in Chicago, Tokyo, Hong Kong and Singapore. In 1998, he was appointed president of AIG's Accident & Health Division in New York and was elected an AIG vice president in 2001. In 2002, he also became chief operating officer at AIU. Mr. Hogan moved to Beijing as senior executive of AIG's partnership with the People's Insurance Company of China in 2003. In 2005 he became AIG's senior life division executive for China and Taiwan, where he was responsible for AIA China and Nan-Shan. In 2008, he returned to New York as AIG's Chief Distribution Officer, Foreign Life and Retirement Services. He joined Zurich in December 2008 as CEO Global Life Americas. In this role he led Zurich's Life insurance business in North and South America with accountability for Farmers Life, Zurich American Life Insurance Company (formerly KILICO) and Zurich's Latin America Life Operations. He became CEO Global Life and member of the GEC in July 2010.

Axel P. Lehmann, born 1959, graduated with an MBA and PhD from the University of St. Gallen in Switzerland. After several U.S. research studies, he wrote a post-doctorate certification at the University of St. Gallen and subsequently completed the Wharton Advanced Management Program. He was a lecturer at several universities and institutes and became vice president of the Institute of Insurance Economics at the University of St. Gallen and the European Center, responsible for Consulting and Management Development. He was head of Corporate Planning and Corporate Controlling for Swiss Life before he joined Zurich in 1996 and held various executive management and corporate development positions within Zurich Switzerland. He became a member of the Group Management Board responsible for Group-wide Business Development functions in November 2000. In September 2001, he was appointed Chief Executive Officer for Northern, Central and Eastern Europe and subsequently Chief Executive Officer of the Zurich Group Germany. In March 2002, he became CEO of the Continental Europe business division and a member of the GEC. In 2004, he was in charge of the consolidation of the United Kingdom, Ireland and South Africa with the Continental Europe business division. In September 2004, he became CEO of Zurich American Insurance Company and the North America Commercial business division in Schaumburg/Chicago. In January 2008 he assumed his current role as Group Chief Risk Officer, with additional responsibility, since 2011, as Chairman of the board of directors of Farmers Group, Inc. and Regional Chairman of Europe and previously for Group IT from 2008 until 2010. Mr. Lehmann is an honorary professor for business administration and service management and Chairman of the board of the Institute of Insurance Economics at the University of St. Gallen in Switzerland. He is also a member of the board of directors of UBS AG and a member and past Chairman of the Chief Risk Officer Forum (CRO Forum).

Christian Orator, born 1963, holds a PhD and master's degree in law from the University of Vienna as well as a master's degree in comparative law from Dickinson School of Law, Pennsylvania. He joined Zurich as sales agent in Austria in 1989. One year later he became product manager for Zurich Kosmos AG. From 1993 until 2005 he held various executive and operational positions in Austria, the U.S. and Germany in Underwriting, Distribution and Market Management within the Zurich Group. From January 2005 until July 2007 he was Head of Special Projects in the office of the Chief Administrative Officer based in Zurich. From August 2007 until August 2010 he was Global Chief Claims Officer in General Insurance. With effect from September 2010 he assumed his current position as Chief Administrative Officer and member of the GEC.

Cecilia Reyes, born 1959, holds a PhD in finance from London Business School and an MBA from the University of Hawaii. She worked from 1990 until 1995 for Credit Suisse in Zurich in various roles in Credit Suisse Asset Management, Global Treasury and Securities Trading. In 1995, she joined ING Barings in London and in 1997 she became a Director and Head of Trading Risk Analytics. After that she moved to Amsterdam in 2000 as Head of Risk Analytics for ING Asset Management to develop risk management methods for the asset management operation. Ms. Reyes joined

Corporate governance report *continued*

Zurich in January 2001 as Regional Manager for Group Investments with responsibility for North America, and became Regional Manager for Europe and International Businesses in July 2004. From April 2006 until March 2010 she was Head of Investment Strategy Implementation. In April 2010, she assumed her current role as Chief Investment Officer and became a member of the GEC.

Geoffrey (Geoff) Riddell, born 1956, holds an MA degree in natural sciences (chemistry) from Oxford University (The Queen's College) and later qualified as a chartered accountant. He started his career with Price Waterhouse in 1978 and four years later moved to AIG, where he held various roles, including country manager for Hong Kong, Belgium and France. While in Hong Kong, he was responsible for setting up the first foreign general insurance company in China. Mr. Riddell joined Zurich in May 2000, initially as managing director of Zurich Commercial in the UK, and then became managing director of the UK Corporate and Government businesses. In November 2002, he was appointed CEO of General Insurance in the UK, Ireland and Southern Africa. Mr. Riddell assumed the position of Chief Executive Officer (CEO) of Global Corporate in April 2004, and was promoted to be a member of the Group Executive Committee in October 2004. On January 1, 2009 he took on the roles of CEO of Asia-Pacific & Middle East (APME), responsible for both Life and General Insurance in the APME region and Chairman of Global Corporate. In July 2010, he assumed the newly created role of Regional Chairman of Asia-Pacific & Middle East. Mr. Riddell is a former member of the General Insurance Council of the Association of British Insurers and for three years chaired its liability committee. From 1990 to 1995, he was a member of the Hong Kong Federation of Insurers Council. He was a director of Pool Re from February 2005 until August 2010 and of the Forum for Global Health Protection from 2007 until the end of 2010. He was a member of the Confederation of British Industry's Chairmen's Committee and chaired the CBI Financial Services Council until September 2010. Until late 2009, he was a member of the Foundation Board of IMD in Lausanne, the City of London EU Advisory Committee and the Lord Mayor of London's Advisory Committee.

Kristof Terryn, born 1967, holds a law degree and a degree in economics from the University of Leuven, Belgium, as well as an MBA from the University of Michigan. He started his professional career in 1993 in the banking industry at Dexia in Luxembourg where he worked in the Capital Markets department and in Strategic Planning. In 1997, he joined McKinsey & Company Inc. where he held various positions within the financial services practice in Brussels and the Chicago office. He joined Zurich in 2004 as Head of Planning and Performance Management. In 2007, he became Chief Operating Officer for the Global Corporate business division and in January 2009 took over the position of Chief Operating Officer for General Insurance. He assumed his current role as Group Head of Operations and member of the GEC as of July 2010.

Pierre Wauthier, born 1960, holds a master's degee in international finance from l'Ecole des Hautes Etudes Commerciales in Paris and a master's degree (Maîtrise) in private law from the Sorbonne University in Paris. He started his professional career in 1982 at KPMG. After that, he worked for two years at the French Ministry of Foreign Affairs. In 1985, he joined J.P. Morgan in Paris where he held various senior positions. In 1994, he joined J.P. Morgan's office in London as Vice President, among others responsible for the Insurance Product Group. Mr. Wauthier joined Zurich in 1996 as Corporate Credit and Investment Risk Manager, served from 1999 to 2002 as Head of Investor Relations and Rating Agency Management and became Executive Vice President and Chief Financial Officer of Zurich's wholly owned subsidiary Farmers Group, Inc. in 2002. In 2007, he became Group Treasurer, and in 2010 also Head of Centrally Managed Businesses. On October 1, 2011, he was appointed Chief Financial Officer of Zurich Financial Services Group and became a member of the GEC.

Changes to the GEC as from January 1, 2012

As from January 1, 2012, Jeff Dailey assumed the position of Chief Executive Officer Farmers Group, Inc. and became a member of the GEC as of the same date.

Jeff Dailey, born 1957, graduated from the University of Wisconsin-Madison with a bachelor's degree in economics and the University of Wisconsin-Milwaukee with a master's degree in business administration. In 1980, Mr. Dailey began his insurance career with Mutual Service Insurance Company and early in his career he also worked for Progressive Insurance Company. Mr. Dailey went on to form Reliant Insurance Company, an auto insurance start-up owned by Reliance Group Holdings, which was sold to Bristol West Holdings Inc. in 2001. From 2001 until 2004, Mr. Dailey was COO of Bristol West and, in 2004, he was named President of Bristol West, consistent with the firm's successful IPO on the New York Stock Exchange. In 2006, he became CEO of Bristol West. Mr. Dailey joined Farmers in 2007 as President of Personal Lines for Farmers when Farmers acquired Bristol West where he served as Bristol West CEO. In January 2011, he was promoted to the position of President and Chief Operating Officer (COO) of Farmers Group, Inc. He became a member to the Board of Farmers Group, Inc. in February 2011. Mr Dailey was appointed to his current role of CEO of Farmers Group, Inc. and became a member of the GEC effective January 1, 2012.

Group Management Board

The Group Management Board (GMB) included the heads of certain business units and Group functions. As the Group continued working on further clarifying accountability, focusing responsibility, reducing complexity and further simplifying its top-level management structure, the GMB was dissolved in 2011 and the members became part of a broader leadership team.

Management contracts

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

Shareholders' participation rights

Voting rights restrictions and representation

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

A shareholder with voting rights can attend shareholders' meetings of Zurich Financial Services Ltd in person. He or she may also authorize, in writing, another shareholder with voting rights or any person permitted under the Articles of Incorporation and a more detailed directive of the Board to represent him or her at the shareholders' meeting. Based on the Articles of Incorporation, minors or wards may be represented by their legal representatives, married persons by their spouses and a legal entity may be represented by a person authorized to bind it by his or her signature, even if such persons are not shareholders. Furthermore, authority of representation may be given to the Independent Representative of Shareholders, to a statutory representative or to representatives of bank accounts who do not need to be shareholders themselves. Zurich Financial Services Ltd may under certain circumstances authorize the beneficial owners of the shares that are held by professional persons as nominees (such as a trust company, bank, professional asset manager, clearing organization, investment fund or other entity recognized by Zurich Financial Services Ltd) to attend the shareholders' meetings and exercise votes as proxy of the relevant nominee. For further details, see page 27.

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

Statutory quora

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

Convocation of the general meeting of shareholders

General meetings of shareholders are convened by the Board of Directors or, if necessary, by the auditors and other bodies in accordance with the provisions set out in Articles 699 and 700 of the Swiss Code of Obligations. Shareholders with voting rights representing at least 10 percent of the share capital may call a shareholders' meeting, indicating the matters to be discussed and the corresponding proposals. The invitation to shareholders is mailed at least 20 calendar days before the meeting is held and, in addition, is published in the Swiss Official Gazette of Commerce and in several newspapers.

Agenda

The Board of Directors is responsible for developing the agenda and sending it to the shareholders. Shareholders with voting rights who together represent shares with a nominal value of at least CHF 10,000 may request in writing, no later than 45 days before the day of the meeting, that specific proposals be included on the agenda.

Registrations in the share register

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

Corporate governance report *continued*

Information Policy

As of December 31, 2011 Zurich Financial Services Ltd has approximately 125,000 shareholders registered in its share register, ranging from private individuals to large institutional investors. Each registered shareholder receives an invitation to the Annual General Meeting. The Letter to Shareholders that provides a quarterly overview of the Group's activities during the year and outlines its financial performance, the more comprehensive Annual Review, the Annual Report and half-year reports are available on Zurich's website www.zurich.com (http://www.zurich.com/investors) and are also available in printed form. Shareholders may opt to receive printed versions of those documents. Further documents regarding the results reporting (on a quarterly basis) are also available for all shareholders on Zurich's website.

Zurich Financial Services Ltd maintains a regular dialogue with investors through its Investor Relations department and responds to questions and issues raised by institutional and private individual shareholders. In addition, Zurich Financial Services Ltd organizes investor days for institutional investors to provide comprehensive information on its businesses and strategic direction. Such presentations can be followed via webcast or conference call. In 2011, the investors' day held in Zurich on December 1, focused on progress on the delivery of our targets and included presentations by the Chief Executive Officer, the CEOs of the business segments, the Chief Financial Officer and the Chief Investment Officer. A further investor day is planned for 2012 on topics of interest to the investment market. A wide range of information on the Group and its businesses, including the aforementioned results reporting documents and the full documentation distributed at the investor days, is also available on the Investor Relations section of Zurich's website, www.zurich.com (http://www.zurich.com/investors).

Zurich Financial Services Ltd will hold its Annual General Meeting on March 29, 2012. The meeting will be conducted in the Hallenstadion in Zurich-Oerlikon. An invitation setting out the agenda for this meeting and an explanation of the proposed resolutions will be issued to shareholders by Zurich Financial Services Ltd at least 20 days before the meeting.

For addresses and further upcoming important dates, see the Shareholder Information starting on page 340 (Financial Calendar on page 342).

Employees

The Group is committed to provide equal opportunities when recruiting and promoting people, whereby ability, experience, skills, knowledge, integrity and diversity are the guiding principles. The Group actively encourages employee involvement in its activities via printed and online publications, team briefings and regular meetings with employees' representatives. For further information on the Group's people management activities, see the Annual Review starting on page 25, also available on Zurich's website www.zurich.com (http://www.zurich.com/internet/main/SiteCollectionDocuments/financial-reports/annual-review-2011-en.pdf).

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

Changes of control and defense measures

Duty to make an offer

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

Clauses on changes of control

Employment agreements have been entered into with the members of the GEC, setting out the terms and conditions on which they are employed. The longest notice period for members of the GEC is 12 months, and no other benefits are provided in the case of a change of control.

The Group's share-based compensation programs include regulations regarding the impact of a change of control. These regulations provide that in the case of a change of control, the Plan Administrator (the Remuneration Committee or the CEO, as applicable) has the right to have the existing share obligations rolled over into new share rights or to provide consideration for such obligations that are not rolled over. Participants who lose their employment as a result of a change of control have the right to the vesting of share obligations. No other benefits are provided to the members of the Group's senior management in case of a change of control.

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

External Auditors

Duration of the mandate and term of office of the auditor-in-charge

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

PwC assumes all auditing functions which are required by law and by the Articles of Incorporation of Zurich Financial Services Ltd. They are elected by the shareholders of Zurich Financial Services Ltd on an annual basis. At the Annual General Meeting of shareholders on March 31, 2011, PwC was re-elected by the shareholders of Zurich Financial Services Ltd. The Board of Directors proposes that PwC be re-elected at the upcoming Annual General Meeting as external auditors for the business year 2012. PwC fulfils all necessary requirements under the new Swiss Federal Act on the Admission and Oversight of Auditors and has been admitted as a registered auditing company by the Federal Audit Oversight Authority under this Act.

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

Mr. Richard Burger of PricewaterhouseCoopers AG has been the lead auditor, responsible since the beginning of 2011 and to the end of the business year 2012. He has been the auditor-in-charge for regulatory and statutory audit work since 2008. The Group requires rotation of the main auditors in charge after they have served Zurich for five years. As in the previous year, Mr. Patrick Shouvlin will co-sign the auditors' report 2011 as global relationship partner.

OBT AG has been elected as a special auditor to perform special audits for increases in share capital required under Articles 652f, 653f and 653i of the Swiss Code of Obligations. At the Annual General Meeting of shareholders on April 3, 2008, OBT was re-elected by the shareholders for a three-year term. OBT AG originally assumed this mandate in October 2000. Following the amendment to the Swiss Code of Obligations (CO) the election of a special audit company in connection with capital increases as mentioned above is no longer required. The Board of Directors therefore proposed at the Annual General Meeting of shareholders on March 31, 2011 to delete the respective provision of the Articles of Incorporation (article 25 para 2) which the shareholders approved. A re-election of OBT AG was therefore not necessary and PwC assumed this role as of the business year 2011.

Audit fees

Total auditing fees (including expenses and value added taxes) charged by PwC in the year 2011 amounted to USD 38.0 million (USD 33.6 million in 2010).

Non-audit fees

Total fees (including expenses and value added taxes) in the year 2011 for additional services (e.g., tax and legal services, transaction consulting services or special audits required by local law or regulatory bodies) performed by PwC and parties associated with them for Zurich Financial Services Ltd or a Group company amounted to USD 4.6 million (USD 5.8 million in 2010). The single components of the non-audit fees are set forth in the table below.

Audit and non-audit fee amounts

in USD millions, as of December 31	2011	2010
Total audit fees	**38.0**	**33.6[1]**
Total non-audit fees	**4.6**	**5.8**
– Tax advice	0.5	0.5
– Legal advice	0.0	0.0
– Transaction consulting incl. due diligence	0.1	0.6
– Audit-related advice	2.3	2.3
– Other	1.7	2.4

[1] Adjusted for foreign exchange rate movements audit fees amounted to USD 36.3 million in 2010.

Corporate governance report *continued*

Supervision and control over the external audit process
The Audit Committee regularly meets with the external auditors, at least four times a year. During 2011, the Audit Committee met with the external auditors nine times. The external auditors regularly have private sessions with the Audit Committee without Management present. Based on written reports, the Audit Committee discusses with the external auditors the quality of the Group's financial and accounting function and any recommendations that the external auditors may have. Topics considered during such discussions include strengthening of internal financial controls, applicable accounting principles and management reporting systems. In connection with the audit, the Audit Committee obtains from the external auditors a timely report relating to the audited financial statements of Zurich Financial Services Ltd and the Group.

The Audit Committee oversees the work of the external auditor. It reviews, at least annually, the qualification, performance and independence of the external auditors and reviews any matters that may impair their objectivity and independence based on a written report by the external auditors describing the firm's internal quality-control procedures, any material issues raised and all relationships between the external auditors and the Group and/or its employees that could be considered to bear on the external auditors' independence. The Audit Committee evaluates the cooperation of the external auditors during their audit examination. It elicits the comments of management regarding the auditors' performance (based on criteria such as their understanding of Zurich's business, technical knowledge and expertise, etc.) and the quality of the working relationship (responsiveness of the external auditors to the needs of Zurich Financial Services Ltd and the Group, and the clarity of communication). The Audit Committee reviews, prior to the commencement of the annual audit, the scope and general extent of the external audit and suggests areas requiring special emphasis.

The Audit Committee proposes to the Board the external auditors for election by shareholders and is responsible for approving the audit fees. A proposal for fees for audit services is submitted by PwC to and validated by Management, before it is submitted to the Audit Committee for approval. Such a proposal is mainly based on an analysis of existing reporting units and expected changes to the legal and operational structure during the year.

The Audit Committee has approved a written policy on the use of external auditors for non-audit services, which sets forth the rules for providing such services and related matters (including a list of prohibited services). Allowable non-audit services may include tax advice and services, comfort and consent letters, certifications and attestations, due diligence and audit support in proposed transactions, to the extent that such work complies with applicable legal and regulatory requirements and does not compromise their independence or objectivity as external auditors. In order to avoid conflicts of interest, all allowable non-audit services need pre-approval from the Audit Committee (Chairman), the Chief Financial Officer or the local CFO, depending on the level of expected fee. They further require, among other things, an engagement letter specifying the services to be provided and making reference to the external auditors' obligation to comply with this policy.

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

The Board Audit Committee and the CEO are regularly informed of important findings, including ineffective opinions, mitigation actions and attention provided by Management. Group Audit has unrestricted access to all accounts, records and documents and must be provided with all data and information needed in order to fulfil its duties. Group Audit works in close cooperation with the external auditors, sharing risk assessments, work plans, audit reports and updates on audit actions. Group Audit and the external auditors meet regularly at all levels of the organization to optimize assurance provision and efficiency. The Head of Group Audit attends each meeting of the Audit Committee.

The Board Audit Committee assesses the independence of Group Audit, and reviews its activities, plans, organization and quality as well as its mutual cooperation with the external auditors. In 2011, the Group commissioned an independent party to perform a review of Group Audit's effectiveness. The results confirmed Group Audit's practices conform with all Institute of Internal Audit (IIA) Standards and FINMA requirements, and Group Audit was assessed as a very mature internal audit function. Notwithstanding this positive result, Group Audit is continuing to constantly challenge its operation to further increase its effectiveness, efficiency and value contribution.

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

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

Group Compliance

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

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

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

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

Risk Management and Internal Control Statement

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

- the Risk Committee – with oversight over risk management and

- the Audit Committee – with oversight over internal control matters.

In 2011, the Group strengthened its governance practices and structures at the local and regional levels for regular review of risk management and internal controls. Local management, led by the legal entity CEO, is responsible for the maintenance of appropriate controls and for ensuring that risks are appropriately identified and addressed. They meet frequently with risk and assurance functions to ensure an effective system of risk identification and mitigation and maintenance of sound internal controls. In addition, regular review of reporting by risk and other assurance functions is carried out by (1) subsidiary boards or subsidiary board audit committees and, additionally, (2) regional oversight

Corporate governance report *continued*

committees that oversee subsidiaries in Latin America, Asia-Pacific, Middle East and parts of Europe. The subsidiary board audit committees comprise directors of the legal entities concerned, including in some instances, independent non-executive directors. The regional oversight committees include a majority of independent members from Group executive management who do not have a direct or indirect operating responsibility for the business carried out by the relevant subsidiary. In addition, assurance providers participate as attendees. The results of such reviews are reported to the Group CEO, the Risk Committee of the Board, the Audit Committee and the Group Board, as appropriate.

The Group has adopted a coordinated and formalized approach to risk management and internal control. The Group's core risk management and internal control systems and policies are established at the Group level with Group-wide implementation. This approach focuses on major risks that might impact the achievement of the Group's business objectives and on the activities to control and monitor these risks, which contributes to control effectiveness. A risk-aware and control-conscious environment is fostered in the Group and reinforced by communication and training.

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

The internal control system focuses on key financial reporting, operational and compliance controls. The system encompasses the policies, processes and activities that contribute to the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with laws and regulations. In 2011, further progress was made to develop and improve the Group's control system while maintaining the focus on the effectiveness of the overall internal control environment.

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

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

The reports relate to matters such as a) significant changes in risks, the business and the external environment; b) management's monitoring of risks and control systems; c) risk and control monitoring communications; d) significant control issues, if any; and e) the effectiveness of the Group's external reporting process.

The Risk Committee has reviewed the effectiveness of the Group's risk management system, including the Group's risk tolerance and the enterprise-wide risk governance framework, and the Audit Committee has reviewed the effectiveness of the system of internal control operated by the Group related to the calendar year 2011 up to the date of the annual report and both of them have reported to the Board accordingly. The Board is satisfied that the reviews were conducted in accordance with the UK Turnbull Guidance (as revised in October 2005). The assessment included the consideration of the effectiveness of the Group's ongoing process for identifying, evaluating, controlling and managing the risks of the business, including the scope and frequency of reports on both risk management and internal control that were received and reviewed during the year by the Risk and Audit Committees and the Board, important risk and control matters discussed and associated actions taken by Management. Issues identified have been communicated to the Board and either have been or are being addressed by the Group.

This statement does not apply to risk management and internal control of insurance operations in Latin America related to the long-term alliance with Banco Santander entered into in 2011.

Going concern

The Directors are satisfied that, having reviewed the performance of the Group and forecasts for the forthcoming year, the Group has adequate resources to enable it to continue in business for the foreseeable future. For this reason, the Directors have adopted the going concern basis for the preparation of the financial statements.

Remuneration report

The Remuneration report describes the principles and governance framework relating to the remuneration of the members of the Board of Directors, the Group Executive Committee and all employees. It also provides details of each remuneration element, and reports on the work of the Remuneration Committee.

In 2011, the Board of Directors continued to oversee and take decisions on the design and implementation of the remuneration principles, rules and architecture. The previous assessment that these are aligned with the delivery of the Group's strategy and reflect current international best practices in terms of governance, plan design and disclosure continues to be confirmed. The Group's remuneration architecture is simple, transparent and market competitive, promotes a high performance culture, has an orientation towards the long-term and is aligned with risk considerations.

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Governance

2011 Remuneration summary

This year a two page summary has been introduced into the report in order to provide readers with an overview of the most important aspects of Zurich's remuneration in 2011.

Remuneration governance and philosophy

The Board of Directors is responsible for the design, implementation and monitoring of the Group's remuneration architecture, and it has established a Remuneration Committee. Amongst other duties, the Remuneration Committee is responsible for proposing to the Board on an annual basis the remuneration payable to the Directors, to the Chief Executive Officer (CEO) and to the other members of the Group Executive Committee (GEC). It also assesses performance as it relates to incentive compensation and proposes the overall expenditure on variable pay.

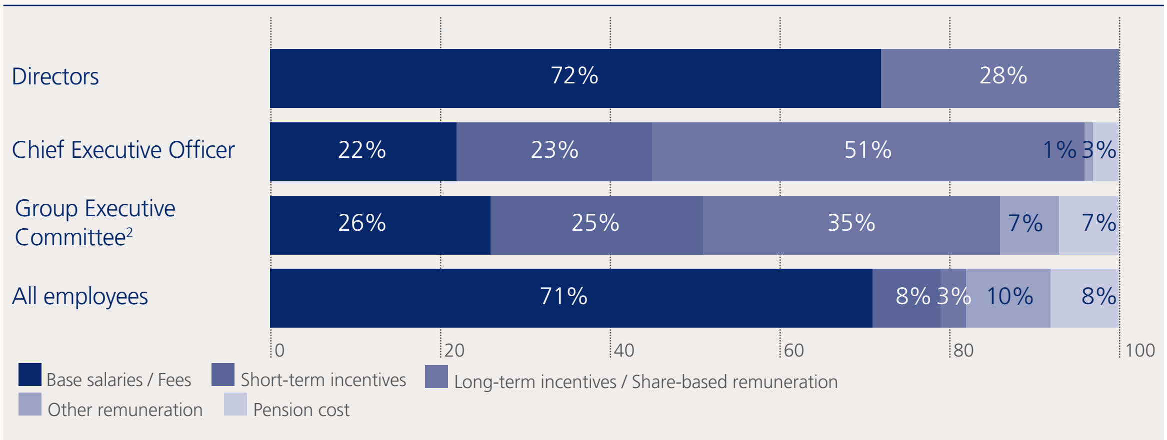
Zurich operates a balanced and effectively managed remuneration system which is aligned with risk-considerations and provides for competitive total remuneration opportunities that attract, retain, motivate and reward the employees to deliver outstanding performance. Total remuneration for an individual employee is influenced by factors including the scope and complexity of the role, business performance and affordability, individual performance, internal relativities, external competitiveness and legal requirements. Target opportunities are benchmarked to median levels in clearly defined markets (depending on the role this can be global, regional or local) and take into account the internal structures.

Remuneration overview

Total remuneration includes base salaries, short-term and long-term incentives and employee benefits. The short- and long-term incentive plans used for variable remuneration are linked to appropriate performance measures and the overall expenditure on variable pay is considered in connection with the Group's long-term economic performance.

Variable remuneration is structured such that on average there is a higher weighting towards the longer term sustainable performance for the most senior employees of the Group, including the individuals considered to be key risk takers. This ensures that a significant portion of the variable pay for these employees is deferred.

2011 Remuneration structure and weighting of elements[1]



[1] At target, as a percentage of total remuneration
[2] Including the Chief Executive Officer

2011 Remuneration

For 2011 remuneration decisions, an appropriate balance was made between all relevant factors including business performance, market considerations, regulatory requirements, the long-term overall focus as well as risk considerations. The fees for members of the Board were reviewed and updated for 2011, as outlined in last year's report, with a key change being that fees are designated in Swiss francs instead of US dollars. Remuneration changes for members of the GEC, where applicable, were focused on increasing the long-term part of variable compensation, to achieve having at least 60 percent of variable remuneration deferred and subject to long-term performance provisions. Balancing the overall structure of remuneration with company performance, market, risk and regulatory considerations was also key for broader employee remuneration decisions.

Remuneration report *continued*

For 2011, the remuneration highlights were as follows:

2011 remuneration highlights

in USD million, for the year ended December 31	Base salary/Fees	Short-term incentives[1]	Long-term incentives[2]	Other[3]	Total remuneration[4]
Directors	3.4	–	1.3	–	4.7
Group Executive Committee	12.7	14.0	16.8	6.8	50.3
All employees	4,025	466	136	1,029	5,656

[1] For all employees equals the cash incentives earned for the year
[2] Includes the fees allocated in restricted shares for Directors
[3] Includes other employee benefits, pension benefits and other remuneration costs
[4] Actual, gross and for cash amounts based on the accrual principle

Remuneration expenditure should be considered in the context of Zurich's overall revenues, capital base and profitability. The key figures are set out in the table below and reflect data for 2011 as presented in this annual report:

Key financial figures

in USD million, for the year ended December 31	2011
Gross written premiums and fees[1]	52,967
Business operating profit	4,261
Net income attributable to shareholders	3,766
Shareholders' equity	31,636
Cost of dividends paid after tax	2,213
Total variable remuneration pool for all employees	618
– as a percentage of gross written premiums and fees	1%
– as a percentage of shareholders' equity	2%

[1] Consists of USD 50,200 gross written premiums and policy fees as well as USD 2,767 Farmers management fees and other related revenues.

As can be seen from these metrics, relative to Zurich's overall revenues and capital position, expenditure on variable remuneration constitutes relatively small percentages. Among other factors, in determining the amount of the total variable remuneration pool for all employees, the Board also considers the long-term economic performance of the Group. For 2011, the average economic profit generated over the previous three years was higher than the amount spent on variable remuneration, as was the case in 2010. On a general note, year-on-year remuneration comparisons in US dollars at all levels of the company, be it for Directors, GEC or for all other employees, have been heavily impacted by the fluctuation in exchange rates.

To further align their interests with those of shareholders, the Board of Directors and the GEC build their ownership position in the Company. As at December 31, 2011, Directors held 46,886 shares and GEC members held 95,426 shares and 386,740 options.

Summary of further key remuneration aspects in 2011

In addition to the remuneration context and outcomes described above, further key aspects for 2011 are outlined below:

- The remuneration system as set out in the Remuneration report for 2010 was subject to a non-binding advisory vote at the Annual General Meeting on March 31, 2011 with 94.6 percent votes in favor.
- The criteria and process used to re-assess the management positions that are considered key risk takers for the Group were clarified and documented, building on the cooperation between Group Human Resources and Group Risk Management.
- The Remuneration Report 2011 has been further improved to include this summary, building on and continuing the Group's commitment to effective corporate governance and transparent disclosure.
- There was no change in the membership of the Remuneration Committee in 2011.

2011 Remuneration report

Report structure

This Remuneration report provides all the information that is outlined in chapter five of the Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange (SIX Directive) and the Swiss Code of Best Practice, as amended with effect from July 1, 2009 and October 15, 2007, respectively. Included is also all the information required by articles 663b^{bis} and 663c paragraph 3 of the Swiss Code of Obligations and the Circular 2010/1 on minimum standards for remuneration schemes of financial institutions, issued on October 21, 2009 and further guidance issued on January 19, 2011 by the Swiss Financial Market Supervisory Authority FINMA (FINMA Circular on Remuneration Schemes).

The structure of the Remuneration report is in alignment with the requirements of the Swiss Code of Obligations, the SIX Directive, the Swiss Code of Best Practice and the FINMA Circular on Remuneration Schemes.

The first part of the report describes the general principles and the governance framework, and the second part provides details of each of the remuneration elements. Because the members of the Board of Directors of Zurich Financial Services Ltd are all independent non-executives, the information has been presented with the complete remuneration details of the Board of Directors contained in one section, that of the GEC shown in the next section, and this is followed by a section including the information requested by the FINMA Circular on Remuneration Schemes for all employees.

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

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

Remuneration governance

Remuneration architecture

The Board of Directors is responsible for the design and implementation of the remuneration principles and the remuneration rules (together the "Remuneration Rules"). To support the Board of Directors in performing these duties it has established a Remuneration Committee. The Remuneration Committee comprises four members of the Board, all of whom are experienced in the area of remuneration. The Remuneration Committee evaluates on an annual basis the remuneration architecture and the Remuneration Rules and proposes to the Board of Directors any amendments to them, if appropriate.

During 2011, the Board of Directors continued to monitor the remuneration architecture and operational implementation, and a joint meeting of the Remuneration Committee and the Risk Committee was held in September 2011. Overall the Board of Directors continues to be firmly of the opinion that the existing remuneration architecture is aligned with the delivery of the Group's strategy and reflects current international best practices in terms of the governance, plan design and disclosure.

In 2011, a number of actions were implemented (which will continue going forward) as follows:

- A joint meeting between the Remuneration Committee and the Risk Committee took place to discuss a risk review of the remuneration architecture and the remuneration governance framework. For this joint meeting, the Group Risk Management function evaluated the remuneration architecture and reported its findings on whether and how the remuneration architecture is consistent with effective risk management and does not encourage inappropriate risk taking that exceeds the Group's level of tolerated risk.

- With regard to the operational implementation of the remuneration architecture across the Group, Group Audit carried out an assessment to include a review of the overall design effectiveness of the processes and controls related to the remuneration scheme as well as governance.

- Further steps were taken to structure the remuneration of the control functions to avoid conflicts of interest, by ensuring that the incentives for all employees in control functions are determined by reference to Group profitability rather than by the profitability of the business controlled by such functions.

Remuneration report *continued*

- Long-term incentive grants were made solely in the form of performance shares (options were discontinued from 2011 onwards). This recognizes market trends and the Board of Directors is of the opinion that performance shares best align the ultimate rewards to individuals with actual performance achievements. Option grants made in the period up to and including 2010 continue to earn out in accordance with the terms and conditions of those grants.

- During the annual process to determine the variable remuneration funding, Group Risk Management consulted with other control, governance and assurance functions and provided the CEO with a review of risk factors to consider when overall performance for the funding of incentives was being assessed. The Chief Risk Officer is available to discuss these findings with the Remuneration Committee and the Board of Directors. Among other factors the CEO takes into account the assessment by Group Risk Management when presenting his proposals for the funding of the short-term and long-term incentive pools to the Remuneration Committee, which in turn makes its recommendation to the Board of Directors for final approval.

As part of a remuneration review in 2010, a number of management positions that are considered key risk takers for the Group were identified (key risk takers). These positions cover the three business segments of General Insurance, Global Life and Farmers, Group Operations and all other principle functions. In 2011, the process and criteria of identifying key risk takers has been further clarified and documented, in order to facilitate the annual reassessment. The criteria are based on factors that materially affect risk-taking within the Group, such as overall governance, capital consumption for each risk type as determined by the internal model, strategy and reputation. The criteria are then applied to those who take as well as to those who control the specific risks at the level of the Group where the risks are most material.

The remuneration arrangements for key risk takers include both short- and long-term incentive plans with a greater emphasis towards long-term and therefore deferred remuneration.

Approval process for remuneration
In accordance with the Remuneration Rules, the Remuneration Committee is responsible for proposing to the Board on an annual basis the remuneration payable to the Directors, to the CEO and to the other members of the GEC. For the other members of the GEC, these recommendations are based on proposals made by the CEO. The remuneration proposals have to be approved by the Board of Directors.

In the meetings of the Remuneration Committee and the Board of Directors where decisions are made on the remuneration of the Chairman, the Chairman is not present. In making decisions on the remuneration of the CEO, the CEO is not present. Where decisions are made on the remuneration of other members of the GEC, those members are also not present at the meetings. The Remuneration Committee does not include members with interlinked company mandates. See page 30 in the Corporate Governance report for further details of its responsibilities.

The approval framework is set out below:

Approval framework

Subject	Recommendation from	Final approval from
Overall Remuneration Architecture	Remuneration Committee and Risk Committee based on proposals by the CEO	Board of Directors
Remuneration Rules	For Directors: Remuneration Committee For all employees: Remuneration Committee based on proposals by the CEO	Board of Directors
Remuneration payable to Directors (including Chairman and Vice Chairman)	Remuneration Committee	Board of Directors
Remuneration of the CEO	Remuneration Committee	Board of Directors
Remuneration of Members of the Group Executive Committee (excluding CEO)	Remuneration Committee based on proposals by the CEO	Board of Directors
Short-Term Incentive Plan (STIP) Funding Pools	Remuneration Committee based on proposals by the CEO taking into account a risk assessment by Group Risk Management	Board of Directors
Vesting levels under the Long-Term Incentive Plan (LTIP)	Remuneration Committee based on proposals by the CEO taking into account a risk assessment by Group Risk Management	Board of Directors

In addition to the above, and in line with the requirements of the FINMA Circular on Remuneration Schemes, the Board of Directors also approves the aggregate amount of variable remuneration for the performance year for the entire Group ("Total Variable Remuneration Pool") taking into account the long-term economic performance of the Group. For further details on the calculation of the Total Variable Remuneration Pool see pages 70 and 71.

Remuneration report *continued*

Benchmark studies and external advisors to the Board of Directors
To assist decision making on both Board and GEC remuneration, benchmarking studies are carried out regularly. To assess market practices and market remuneration levels, the remuneration structures and practices of the largest insurance companies are analyzed, using the companies in the Dow Jones Titan Insurance Index as a basis. This Index comprises the largest insurance companies throughout the world, predominantly in Europe and in the United States. This analysis is supplemented by additional benchmarking studies as appropriate, e.g. by looking at practices within the large Swiss Market Index (SMI) companies in Switzerland or at similar sized companies in other countries. The resulting industry peer group includes such companies as AXA, Allianz, AIG, Munich Re, Aviva, ING Group, Prudential Plc, Met Life, Aegon, Ace, Travelers Cos. Inc., Manulife Financial Corp., Prudential Financial Inc., and Swiss Re.

The results of the benchmarking studies are taken into account in setting fee levels for Directors and the remuneration structures and levels for the CEO and the other members of the GEC. In analyzing the results of the benchmarking studies market practices in the various countries and the internal relativities between positions are taken into account. Overall positioning of the remuneration packages is towards the median levels.

In reviewing remuneration structures and practices on a regular basis, the Remuneration Committee and the Board of Directors receive independent advice from the executive compensation practice at Meridian Compensation Partners LLC (Meridian) as well as at Aon Hewitt, part of Aon Corporation (Aon Hewitt). These advisors were appointed by the Remuneration Committee and are accountable to it. Both, Meridian and Aon Hewitt provide advice to the Board of Directors, whereby the lead consultant is employed by Meridian. Meridian does not provide any other services to the Group. Although certain practices within Aon Hewitt – a large, international brokerage and human resources firm – undertake work for the Group from time to time, the Remuneration Committee does not consider the independence and integrity of the advice it receives from Aon Hewitt to be compromised by these separate assignments.

For their activities, management is supported by a variety of firms operating in the field of international executive compensation.

Guidelines on share ownership requirements for Directors and members of the Group Executive Committee
To align the interests of the Board of Directors and the GEC with those of shareholders, Directors and GEC members build their ownership position in the Company and have to meet a certain ownership requirement. Directors achieve this through part of their fee payment being made in three years sales restricted shares and market purchases. GEC members achieve this through their participation in long-term incentive plans and market purchases. Directors and GEC members have a period of five years to meet their ownership requirement and the Remuneration Committee monitors compliance with these guidelines on an annual basis.

Involvement of shareholders
As last year, Zurich will provide shareholders with an opportunity to express their views on the remuneration architecture through an advisory vote at the Annual General Meeting to be held on March 29, 2012. As the ultimate decision on remuneration is within the powers of the Board of Directors, such a vote is non-binding in nature.

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

Based on their role on the Board and the fee structure described on page 60, fee levels are established for each member of the Board of Directors of Zurich Financial Services Ltd. Fees are paid in cash and in shares with approximately one-third of the fee being provided in three-year sales restricted shares of Zurich Financial Services Ltd.

The fees paid to Directors (including the portion provided in sales restricted shares) are not subject to the achievement of any specific performance conditions.

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

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

Guiding principles of the remuneration philosophy
The guiding principles for the remuneration philosophy as set out in the Remuneration Rules are as follows:

- The Group's remuneration architecture is simple, transparent and implementable. For those individuals considered to be key risk takers for the Group, it is oriented towards the long-term.
- The structure and level of total remuneration are aligned with the Group's risk policies and risk-taking capacity.
- The Group promotes a high performance culture by differentiating total remuneration based on the relative performance of businesses and individuals.
- The Group clearly defines the expected performance through a structured system of performance management and uses this as the basis for remuneration decisions.
- The Group links variable remuneration awards to key performance factors which can include the performance of the Group, the business segments, business divisions, business units, functions as well as individual achievements.
- The Group's short- and long-term incentive plans used for variable remuneration are linked to appropriate absolute and relative performance measures and the overall expenditure on variable pay is considered in connection with the Group's long-term economic performance.
- The structure of the long-term incentive plans links remuneration with the future development of performance and risk by including features for deferred remuneration.
- The Group provides its employees with a range of benefits based on local market practices, taking into account the Group's risk capacity on pension funding and investments.

Total remuneration
Total remuneration for an individual employee is influenced by a number of factors such as the scope and complexity of the role, business performance and affordability, individual performance, internal relativities, and legal requirements. As described on pages 54 and 56 target opportunities are benchmarked to median levels in clearly defined markets. Depending on the position, the global, regional or the respective local market is utilized for benchmarking. The remuneration mix between base salary and variable pay is also aligned with local market practices and the internal structures. Zurich is transparent in the communication of how the reward structure is defined and the processes used for decision making. Total remuneration includes the following elements:

Remuneration report *continued*

Elements of total remuneration

Element		Type	Description
Base salary		Fixed cash	Fixed remuneration, determined by scope and complexity of the role Generally paid within an 80 percent – 120 percent range of relevant market median
Variable pay	Short-term incentives (STIP – 1 year)	Performance cash	For executives, senior managers and a broader group of employees, paid annually Performance measured against business results and accomplishment of strategic objectives Awards driven by both business and individual performance
	Long-term incentives (LTIP – 3 years)	Performance shares	For a defined group of executives and senior managers Target grants are made annually and each annual grant is divided into 3 equal tranches The 1st tranche is assessed for vesting in the year following the year of grant, the 2nd tranche in the following year and 3rd tranche in the year after that Vesting is determined based on the Group's relative total shareholder return (TSR) and return on common shareholders equity (ROE) achievements over the three calendar years prior to the vesting date Half of vested share awards are sales restricted for three years
Employee benefits		Fixed benefits	Employee benefits are provided in line with local market practices Pension plans are de-risked in line with Group guidelines Benefits are positioned towards median

Base salary

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

Variable pay

Incentive plans are designed to provide a range of award opportunities linked to levels of performance. Business and individual performance may result in superior remuneration levels above target for superior performance, and reduced levels below target for performance below expectations. Variable pay opportunities are provided, in markets where this is the norm, to motivate employees to achieve key short- and long-term business goals to increase shareholder value. Variable pay opportunities may include both short-term and long-term incentives:

Short-term (1 year) incentives are performance-driven based on the following design:

- Short-term incentive awards are paid in cash.
- Each participant has a target award established for the performance year.
- A number of distinct short-term incentive pools are established to cover each area of the Group's business. For example, for the most senior executive group, each business segment, operations, the functional areas and the Corporate Center. The pool structure is reviewed each year. Each participant is allocated to one of the STIP funding pools.
- For each STIP pool, the target funding pool is equal to the sum of the individual target award levels for the participants in the pool.
- The actual funding for the STIP pool, as a percentage of the target pool, is assessed at the end of the performance year. The Board of Directors has approved a STIP performance grid, which links business performance to the potential size of the actual funding pool. Taking into account the relevant business performance and risk considerations, the CEO makes recommendations on the size of the various STIP funding pools to the Remuneration Committee, which then discusses and seeks approval from the Board of Directors.
- The relevant business performance is assessed against the business plan that is approved by the Board of Directors in December of the year prior to the performance year. The financial measures to fund the pools typically include the Group's Net Income for the senior executive group and the relevant Business Operating Profit (BOP) for the business segments. Depending on the actual achievements, the STIP funding pools can vary between 0 percent and 175 percent of the target pools. In assessing the business results, the financial performance of the area as well as a review of risk considerations by the Chief Risk Officer are taken into account.
- The allocation of the STIP funding pool to individual participants is then based on the size of the funding pool available, the results of the unit that the individual is working in and the performance achievements of the individual participant during the year. Any violations of internal rules or external provisions by the respective individual are taken into account in the individual performance rating. The individual performance achievements are assessed through the Group's performance management system and process. The Group's performance management process utilizes an individual rating scale between 1 and 5, with 5 being the highest rating, and a target distribution guideline for each of the ratings.
- Depending on the size of the STIP funding pool and the individual performance rating, short-term incentive awards can vary between 0 percent and 200 percent of the individual target award level.
- In this way, short-term incentive awards are differentiated based on the performance achievements of the business and the individual.

Short-term incentives are delivered through a Group plan and through local country plans. The Group plan is utilized across the organization and, in many countries covers all employees in the respective country who are selected to participate. In other countries only the most senior individuals participate in the Group plan. Local country plans, following broadly the same principles as the Group plan, may be utilized for other employees.

During 2011, approximately 10,000 employees were transferred from local incentive plans to the Group plan.

Long-term (3 year) incentives support the achievement of the Group's longer term financial goals and are utilized for a defined group of executives and senior managers, whose specific roles focus on the performance drivers of long-term shareholder value. This group contains the individuals with the highest levels of total remuneration, as well as those individuals considered to be key risk takers. In alignment with the Group's risk profile and business strategy, long-term incentives are provided with a deferral element taking into account material risks and the time horizon thereof. Such deferred remuneration is structured in a way to promote the risk awareness of the participants and to encourage the participants to operate the business in a sustainable manner.

Remuneration report *continued*

Deferral of the long-term incentives is achieved by:

- pro rata vesting of the long-term incentive grants in one third installments over the three years following the year of grant, and
- moreover, for those share awards that vest, one half of these share awards are sales restricted for a period of three years from the date of vesting.

Long-term incentive plans applied by the Group may include i) performance shares, ii) performance based options, or iii) restricted shares, or a combination thereof. With effect from January 1, 2011 the regular long-term incentive grants are made in performance shares and no option grants have been made since January 2011. The key design features for the Group's long-term incentive plans are as follows:

- Each participant has a target award established for the year of grant.
- Vesting is based on an annual, ratable model where the target grants are divided into three equal tranches and each tranche is assessed for vesting in the three years following the date of grant. This is illustrated in the following table:

Development of the grant made in 2011

	Year of vesting and year when the sales restrictions on 50% of any vested share award lapses					
	2012	2013	2014	2015	2016	2017
Tranche 1[11grant]	Vesting Assessment			Sales Restrictions Lapse		
Tranche 2[11grant]		Vesting Assessment			Sales Restrictions Lapse	
Tranche 3[11grant]			Vesting Assessment			Sales Restrictions Lapse

The following table shows how the tranches under the various annual grants vest throughout consecutive calendar years. As a result there are always three tranches of different years' grants that are assessed for vesting in each calendar year.

Year of vesting for each tranche		
2012	**2013**	**2014**
Tranche 1[11grant]	Tranche 1[12grant]	Tranche 1[13grant]
Tranche 2[10grant]	Tranche 2[11grant]	Tranche 2[12grant]
Tranche 3[09grant]	Tranche 3[10grant]	Tranche 3[11grant]

- For performance based grants, these grants only vest if certain Group performance conditions are met in terms of the absolute return on common shareholders' equity (ROE) and the position of the Group's total shareholder return (TSR) compared with an international peer group of insurance companies based on the Dow Jones Titan Insurance Index. Performance is measured over a three year calendar period prior to the vesting date and the vesting percentage, based on the actual ROE and TSR achievements, can vary between 0 percent and 175 percent of the target grants. If the minimum performance thresholds are not met, the target grants will not vest. The vesting percentage is proposed by the CEO to the Remuneration Committee and the Committee makes a recommendation to the Board of Directors for final approval. The vesting matrix is as follows:

Long-Term Incentive Plan Vesting Matrix

in %		**Level of vesting for share and share option target grants**			
Zurich's three year relative TSR, based on 28 companies making up primarily the Dow Jones Global Insurance Sector Titan Index	Top quartile (Position: 1 to 7)	100%	125%	150%	175%
	Second quartile (Position: 8 to 14)	75%	100%	125%	150%
		9%	12%	15%	18%
		Three year annual average of the Group's return on common shareholders' equity (ROE)			

Where the actual ROE lies in between the values in the table, the vesting percentage is determined by interpolating the figures in the above matrix. As an example, with the relative TSR in the top quartile and an average ROE of 14 percent over the three year period, the vesting percentage would be 142 percent of the target grant.

- The right to modify awards to reflect individual circumstances is reserved for the CEO except for modifications regarding members of the GEC where such right is reserved for the Remuneration Committee and the Board of Directors. An adjustment of +/-25 percent to the regular vesting level may be applied before distribution. However, if performance under exceptional or unusual circumstances so warrants it, exceptions to the +/- 25 percent adjustment may be made. In this respect the company reserves the right to adjust and even set the vesting percentage to zero for an individual to reflect specific circumstances (e.g. in connection with a breach of internal or external rules) during the period prior to vesting, but any such adjustment is reserved exclusively for the Remuneration Committee and the Board of Directors.

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

Remuneration report *continued*

Employee benefits

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

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

As of December 31, 2011, all of the Directors of Zurich Financial Services Ltd are non-executives, independent of management. The remuneration for Directors and for members of the GEC, as well as their shareholdings, is disclosed separately.

Directors

Directors' fees

All Directors receive a fee, which is paid partly in cash and allocated partly in three-year sales restricted Zurich Financial Services Ltd shares, for their memberships of the Boards of Zurich Financial Services Ltd and Zurich Insurance Company Ltd. The shares are provided as part of the overall fee which is not subject to the achievement of any defined performance targets.

As outlined in the 2010 remuneration report, the fee structure for the Directors, which had been in place since 2007/2008, was reviewed against relevant market levels including the payments being made for the insurance companies in the Dow Jones Titan Index and the larger companies in the Swiss SMI Index. These comparisons indicated that the (previous) fee structure had fallen behind prevailing market levels, with one important reason being the fact of fees being established in US dollars which had depreciated significantly against the Swiss Franc in recent years. So, as was set out in the 2010 Annual Report, published in 2011, the Board agreed to make amendments to the fee structure, including that all fees are determined in Swiss francs and the structure updated for 2011 as outlined below. There are no changes planned for 2012.

Except for the Chairman and Vice Chairman, Directors are remunerated with an annual basic fee of CHF 240,000 in 2011 (USD 205,000 in 2010). One-third of this annual basic fee, i.e. CHF 80,000 in 2011 (USD 68,500 in 2010), is allocated to sales restricted Zurich Financial Services Ltd shares. The fee is pro-rated for members leaving or joining during the year. Committee members receive an additional cash fee of CHF 50,000 in 2011 (USD 40,000 in 2010) for all committees on which they serve, irrespective of the number of committees. In addition, the chair of each committee receives an annual fee of CHF 30,000 for 2011 (USD 20,000 in 2010) and the chair of the Audit Committee receives an additional CHF 10,000 in 2011 (USD 10,000 in 2010). For 2011, we have discontinued the previous practice where Directors who reside in the United States received an additional fee of USD 10,000 per annum. The committees on which the Directors serve are set out in the Corporate Governance Report on page 30.

Where a Director is also a member of one or more subsidiary boards of Zurich Financial Services Group, the Director is entitled to an additional fee of CHF 50,000 in 2011 (USD 40,000 in 2010) per annum plus CHF 10,000 in 2011 (USD 10,000 in 2010) per annum if he or she also chairs an audit committee of such a board. Given the increased responsibilities and time commitment for the Boards in Ireland, i.e. Zurich Insurance plc (ZIP) and Zurich Life Assurance plc (ZLAP), the fees for these subsidiary boards were increased from CHF 50,000 to CHF 75,000 with effect from July 1, 2011.

The annual basic fee for the Vice Chairman during 2011 was CHF 375,000 (USD 330,000 in 2010), of which an amount of CHF 80,000 in 2011 (USD 68,500 in 2010) is allocated to sales restricted Zurich Financial Services Ltd shares. The annual basic fee for the Chairman of the Board of Zurich Financial Services Ltd during 2011 was CHF 1,000,000 (USD 700,000 in 2010) and one-third of the total amount, i.e. CHF 333,500 in 2011 (USD 233,500 in 2010) is allocated to sales restricted Zurich Financial Services Ltd shares. Neither the Chairman nor the Vice Chairman receive any additional fees for their committee work.

Based on this structure, the total aggregate fees allocated to the Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd for the year ended December 31, 2011, amounted to CHF 4,257,500 (USD 4,762,571). This included CHF 3,079,000 (USD 3,444,264) in cash and a value at the allocation date of CHF 1,178,500 (USD 1,318,306) in three-year sales restricted shares. The share price at the allocation date was CHF 218.90. The corresponding amount for 2010 was USD 3,445,000, which comprised USD 2,553,625 in cash and a value at the allocation date of USD 901,375 in three-year sales restricted shares. The share price at the grant date in 2010 was CHF 246.50. The Directors' fees are not pensionable.

The following tables set out the fees paid to the Directors for 2011 and 2010 (including a comparison of amounts in Swiss francs and in US dollars for 2011, to facilitate the year-on-year comparison with 2010).

Directors' fees 2011

in CHF	2011[1]						
	Basic Fee	Committee Fee[2]	Chair Fee[3]	Other Fees[4]	Total Fees	Of which paid in Cash[5]	Of which allocated in Shares[6, 7]
M. Gentz, Chairman[8]	1,000,000	–	–	–	1,000,000	666,500	333,500
J. Ackermann, Vice Chairman[8]	375,000	–	–	–	375,000	250,000	125,000
S. Bies, Member	240,000	50,000	–	50,000[9]	340,000	260,000	80,000
V. Chu, Member	240,000	50,000	–	–	290,000	210,000	80,000
Th. Escher, Member	240,000	50,000	–	–	290,000	210,000	80,000
F. Kindle, Member	240,000	50,000	–	–	290,000	210,000	80,000
A. Meyer, Member	240,000	50,000	–	–	290,000	210,000	80,000
D. Nicolaisen, Member	240,000	50,000	40,000	50,000[9]	380,000	300,000	80,000
V.L. Sankey, Member	240,000	50,000	30,000	–	320,000	240,000	80,000
T. de Swaan, Member	240,000	50,000	30,000	72,500[9]	392,500	312,500	80,000
R. Watter, Member	240,000	50,000	–	–	290,000	210,000	80,000
Total in CHF[10]	**3,535,000**	**450,000**	**100,000**	**172,500**	**4,257,500**	**3,079,000**	**1,178,500**
Total in USD	**3,954,360**	**503,384**	**111,863**	**192,964**	**4,762,571**	**3,444,264**	**1,318,306**

Directors' fees 2010

in USD	2010[1]						
	Basic Fee	Committee Fee[2]	Chair Fee[3]	Other Fees[4]	Total Fees	Of which paid in Cash[5]	Of which allocated in Shares[6,12]
M. Gentz, Chairman[8]	700,000	–	–	–	700,000	466,500	233,500
Ph. Pidoux, Vice Chairman[8, 11]	82,500	–	–	–	82,500	82,500	–
J. Ackermann, Vice Chairman[11]	247,500	–	–	–	247,500	196,125	51,375
S. Bies, Member	205,000	40,000	–	50,000[9]	295,000	226,500	68,500
V. Chu, Member	205,000	40,000	–	–	245,000	176,500	68,500
Th. Escher, Member	205,000	40,000	–	–	245,000	176,500	68,500
F. Kindle, Member	205,000	40,000	–	–	245,000	176,500	68,500
A. Meyer, Member	205,000	40,000	–	–	245,000	176,500	68,500
D. Nicolaisen, Member	205,000	40,000	30,000	50,000[9]	325,000	256,500	68,500
V.L. Sankey, Member	205,000	40,000	20,000	–	265,000	196,500	68,500
T. de Swaan, Member	205,000	40,000	20,000	50,000[9]	315,000	246,500	68,500
R. Watter, Member	205,000	40,000	–	–	245,000	176,500	68,500
Total in USD[10]	**2,875,000**	**360,000**	**70,000**	**150,000**	**3,455,000**	**2,553,625**	**901,375**

[1] The remuneration shown in the tables is gross, based on the accrual principle and does not include any business-related expenses incurred in the performance of the Directors' services.
[2] Committee members receive a cash fee of CHF 50,000 (USD 40,000 in 2010) for all Committees on which they serve, irrespective of the number. The Committees on which the Directors serve are set out in the Corporate Governance Report on page 30.
[3] Committee chairs receive an annual fee of CHF 30,000 (USD 20,000 in 2010) and the chair of the Audit Committee receives an additional CHF 10,000 (USD 10,000 in 2010). The Committees on which the Directors serve and the chairs are set out in the Corporate Governance Report on page 30.
[4] Directors who reside in the US received an additional fee of USD 10,000 per annum in 2010, this is discontinued in 2011.
[5] The cash fees were previously defined in US dollars, but paid in the actual currencies where the Board members reside, based on the relevant exchange rate at the dates of the payment. From 2011 onwards, the fees are designated in Swiss francs.
[6] The shares allocated to the Directors are sales-restricted for three years.
[7] As of June 30, 2011, Mr Gentz was allocated 1,523 shares, Mr Ackermann was allocated 571 shares, and the other Board members were allocated 365 shares based on a full year's membership. The share price (CHF 218.90) as of June 15, 2011 was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash. The amounts shown in the table above reflect the fixed amount in Swiss francs for 2011 and in US dollars for 2010 (translated into Swiss francs) of the portion of the fee to be allocated in shares.
[8] Neither the Chairman nor the Vice Chairman receive any additional fees for their Committee work.
[9] In addition to the fees received as Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd, Mrs Bies, Mr Nicolaisen and Mr de Swaan earned fees for their board memberships of the following Zurich Financial Services Group companies:
– In 2011, Mrs Bies and Mr Nicolaisen earned CHF 50,000 for their membership of the board of Zurich Holding Company of America (ZHCA). In 2010, both received an annual fee of USD 40,000 as well as a US Residence Fee of USD 10,000.
– In 2011, Mr de Swaan earned CHF 50,000 p.a. for the first 6 months and CHF 75,000 p.a. for the second 6 months (each pro-rated) for his membership of the board of

Remuneration report *continued*

Zurich Insurance plc and of the board of Zurich Life Assurance plc. He also earned an annual fee of CHF 10,000 for being chair of the audit committees of these two companies. In 2010, he received an annual fee of USD 40,000 for his membership of the board and an annual fee of USD 10,000 for being chair of the audit committees of these two companies.

[10] In line with applicable laws, Zurich paid the company-related portion of contributions to social security systems, which amounted to CHF 142,832 in 2011. The corresponding contributions amounted to USD 85,136 (or CHF 88,527 respectively) in 2010. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above.

[11] At the Annual General Meeting on March 30, 2010 Mr Pidoux retired from the Board and Mr Ackermann was elected to the Board and was appointed Vice Chairman.

[12] As of June 30, 2010, Mr Gentz was allocated 1,071 shares, Mr Ackermann was allocated 235 shares, and the other Board members were allocated 314 shares based on a full year's membership. The share price (CHF 246.50) and the exchange rate (USD/CHF 1.131) as of June 15, 2010, were adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash. The amounts shown in the table above reflect the fixed amount in US dollars (translated into Swiss francs) of the portion of the fee to be allocated in shares.

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

No Director gave up his or her function in 2011. Mr Pidoux retired from the Board at the Annual General Meeting during 2010. No termination payments were made to him.

Remuneration for former Directors

No benefits (or waiver of claims) have been provided to former members of the Boards during the year 2011, nor were any provided during the year 2010.

Share plans for Directors

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

Shareholdings of Directors

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

Directors' shareholdings

Number of Zurich Financial Services Ltd shares[1], as of December 31	Ownership of shares	
	2011	2010
M. Gentz, Chairman	6,868	5,345
J. Ackermann, Vice Chairman	806	235
S. Bies, Member	1,246	881
V. Chu, Member	1,246	881
Th. Escher, Member	7,084	6,164
F. Kindle, Member	16,529	11,164
A. Meyer, Member	2,853	2,488
D. Nicolaisen, Member	1,529	1,164
V.L. Sankey, Member	2,699	2,334
T. de Swaan, Member	1,529	1,164
R. Watter, Member	4,497	4,132
Total	**46,886**	**35,952**

[1] None of the Directors together with parties related to them held more than 0.5 percent of the voting rights as of December 31, 2011 or 2010, respectively.

Share options held by Directors

The members of the Boards of Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd do not participate in any share option plan for executive management. Hence, no share options have been allotted in the year under review or in earlier years. None of the Directors, nor any related parties to them, held any share options or conversion rights over Zurich Financial Services Ltd shares as of December 31, 2011 or 2010.

Additional honoraria and remuneration for Directors

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

Personal loans for Directors

Unrelated to his Board membership and on terms and conditions available to other customers, Mr Watter had a collateralized policy loan in the amount of CHF 2.5 million outstanding as of December 31, 2011 and 2010. The annual interest rate charged on the loan is 4 percent. Other than the loan for Mr Watter, none of the Directors had outstanding loans, advances or credits as of December 31, 2011 or 2010.

Personal loans for former Directors

As of December 31, 2011, and 2010, respectively, no former Director had outstanding loans, advances or credits.

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

No benefits (or waiver of claims) have been provided to related parties of the Directors or related parties of former members of the Boards during the years 2011 and 2010, respectively. Neither had any related party of the Directors or of former members of the Boards outstanding loans, advances or credits as of December 31, 2011 and 2010.

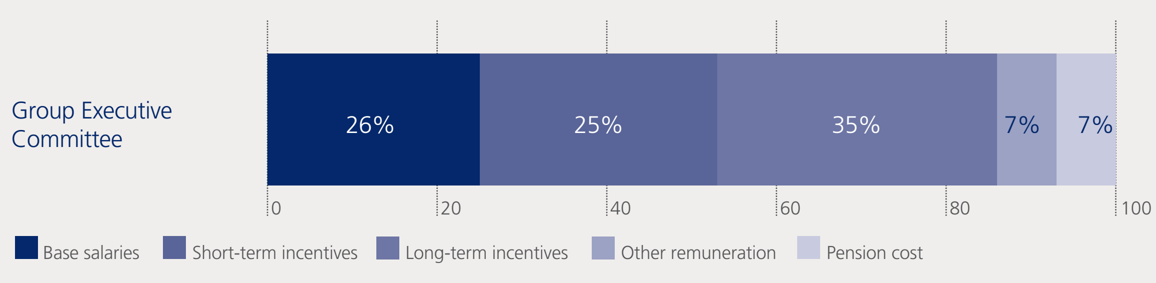
Group Executive Committee

Remuneration of the Group Executive Committee

The total remuneration of the members of the GEC for 2011 comprised the value of cash remuneration (including short-term cash incentive), pensions, other remuneration and the target equity grants made under the Group's Long-Term Incentive Plan in 2011.

The remuneration structure and the mix of the individual remuneration elements for GEC members are determined by taking into account relevant market practices and internal relativities.

The distribution of the total remuneration in 2011 between the individual remuneration elements is set out in the following chart. This is on the basis of the target values for the performance related remuneration.



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

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

Value of total remuneration

The total value of the various remuneration elements earned by the members of the GEC in 2011 was USD 50.3 million, an increase of USD 4.5 million compared with USD 45.8 million earned in 2010 calculated on the same basis. The increase is almost entirely due to fluctuations in exchange rates. In Swiss francs, the total value declined from CHF 47.2 million in 2010 to CHF 45.4 million in 2011.

The total value for 2011 comprises the following elements (the comparative figures for 2010 are shown in the table on total remuneration for all GEC members):

Governance

Remuneration report *continued*

Base salaries and annual cash incentives paid for 2011

The total amount of base salaries and annual cash incentive awards earned under the Short-Term Incentive Plan for 2011 was USD 26.7 million. This comprised USD 12.7 million in base salaries and USD 14.0 million in annual cash incentive awards, which reflect the amounts to be paid in 2012 for 2011 performance. As set out on page 57 the annual cash incentive awards are determined individually and are performance based.

Overall funding for the incentives is based on the overall group profit performance in 2011 and actual awards to individuals are based on a combination of factors, including the results of the business that the GEC member is responsible for and their individual performance with regard to the accomplishment of strategic objectives during the year. For members of the GEC, including the CEO, the target levels under the Short-Term Incentive Plan for 2011 vary between 75 percent and 100 percent of the base salary. The maximum award for all GEC members, including the CEO, is 200 percent of the target level.

Value of pension benefits accruing during 2011

Members of the GEC participate in the pension plan arrangements of the entities where they are employed. The Group's philosophy is to provide pension benefits through cash balance and/or defined contribution plans where funds are accumulated throughout a career to provide retirement benefits. The majority of GEC members participate in such plans and, over time, all future GEC members will participate in such plans. The remaining GEC members participate in defined benefit plans that provide retirement benefits based on final pensionable earnings and the number of years of service. Normal retirement ages vary from 60 to 65. The total value of pension benefits accruing to members of the GEC during 2011, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles, was USD 3.4 million. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans take the amount of the company contribution paid during the year.

Value of other remuneration paid in 2011

Members of the GEC received other remuneration in 2011 in relation to employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under each member's employment contract. The total value of other remuneration in 2011 was USD 3.4 million. Benefits-in-kind have been valued using market rates.

Equity grants made to the Group Executive Committee under the Group Long-Term Incentive Plan in 2011

As described above, GEC members received under the Group Long-Term Incentive Plan in 2011 an annual grant of performance shares. In extraordinary circumstances, restricted share grants may also be made. For members of the GEC, including the CEO, the value of the target grants in 2011 was set between 100 percent and 225 percent of the base salary.

As in previous years, the target grants for 2011 were made on the third working day in April, i.e. on April 5, 2011. The target number of performance shares was calculated by dividing the monetary value of the grant by the share price on the day prior to the grant respectively. Effective in 2011, all long-term incentive grants were made solely in the form of performance shares.

The vesting of the grants and the performance criteria are set out on pages 57 to 59. The following equity grants were made in 2011:

Performance share grants

The total number of target performance share grants made to members of the GEC during 2011 was 63,787. This compares with an equivalent figure of 29,129 made for 2010, the increase reflects that no option grants were made in 2011. The value of the target performance share grants made on April 5, 2011 to members of the GEC in 2011 was USD 16.8 million at the date of grant based on the assumption of 100 percent vesting and a share price of CHF 243.60 on the day prior to the grant. For those GEC members who joined during 2011, the number and the value of the share grants is based on the grant for 2011 pro-rated for the time spent as a GEC member during the year.

The number of share awards that vested in 2011 to members of the GEC serving in 2011 from the performance share grants made in 2008, 2009 and 2010 was 32,737. This represented a basic vesting level of 135 percent of target given the actual ROE and TSR performance achievements. One-half of the shares that vest under the plan are sales restricted for three years from the date of vesting.

Restricted share grants

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

No restricted share grants were made to members of the GEC during 2011 and 2010.

Share option grants

There were no share option grants in 2011.

The number of share option awards that vested in 2011 to members of the GEC serving in 2011 from the share option grants made in 2008, 2009 and 2010 was 184,219. This represented a basic vesting level of 135 percent of target given the actual ROE and TSR performance achievements.

Summary of total remuneration for the Group Executive Committee

By reference to the above figures, the total remuneration of the GEC members, comprising cash compensation, pensions, the value of other remuneration and the value of target equity grants for 2011 was USD 50.3 million, for 2010 it was USD 45.8 million, divided as follows:

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All GEC members (incl. the highest paid)[1]

in USD million, for the year ended December 31	2011[2]	2010[3]
Base salaries	12.7	11.4
Cash incentive awards earned for the year	14.0	13.6
Service Costs for pension benefits[4]	3.4	3.0
Value of other remuneration[5]	3.4	3.6
Value of target performance share and restricted share grants[6]	16.8	7.1
Value of target performance option grants[6, 7]	–	7.1
Total in USD[8]	**50.3**	**45.8**
Total in CHF	**45.4**	**47.2**

1 The remuneration shown in the table is gross, based on the accrual principle and does not include any business related expenses incurred in the performance of the members' services.
2 On the basis of 12 GEC members, of whom 9 served for the full year 2011.
3 On the basis of 13 GEC members, of whom 8 served during the full year 2010.
4 The amounts reflect the total value of pension benefits accruing to members of the GEC during 2011 and 2010, respectively, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service costs do not include the interest costs on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
5 Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under employment contracts. Benefits-in-kind have been valued using market rates.
6 The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in Note 24 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 243.60 for 2011 and CHF 259.90 for 2010).
7 From 2011 onwards, options are no longer granted.
8 In line with applicable laws where the executives are employed, Zurich paid the company-related portion of contributions to social security systems, which amounted to USD 2.2 million (CHF 2.0 million) in 2011 and USD 2.1 million (CHF 2.1 million) in 2010. Since the contributions are based on full earnings, whereas benefits are capped, there is not a direct correlation between the costs paid to the social security system and the benefits received by the executives.

Based on these figures, the value of the total remuneration for all members comprises 39 percent (prior year 40 percent) in fixed remuneration elements (comprising base salaries, service costs for pension benefits and other remuneration) and 61 percent (prior year 60 percent) in performance related components (comprising the cash incentive awards under the Short-Term Incentive Plan together with the value of the target performance share grants, restricted share grants and share option grants).

Remuneration report *continued*

Highest total remuneration for Group Executive Committee members

The highest paid remuneration for the GEC members was CHF 7.9 million for Mr Senn, the Group's CEO. This amount reflects his 2011 base salary, the cash incentive earned for 2011, the value of pension benefits, other remuneration and the value of the target performance shares granted in 2011. This compares with an amount of CHF 7.1 million in 2010. All Mr Senn's remuneration is paid in Swiss francs.

Compensation changes for members of the GEC, where applicable, were focused on increasing the long-term part of variable compensation. The change in Mr Senn's remuneration in 2011 was entirely due to an increase in the value of his target long-term incentive grant. This further aligns his remuneration with the long-term interest of shareholders.

The following table specifies the total remuneration paid to the highest paid GEC member:

Highest paid executive, Chief Executive Officer, Martin Senn in 2011 and 2010[1]

in CHF millions, for the year ended December 31	2011	2010
Base salary	1.60	1.60
Cash incentive awards earned for the year	2.40	2.40
Service costs for pension benefits[2]	0.20	0.20
Value of other remuneration[3]	0.10	0.10
Value of target performance share and restricted share grants[4]	3.60	1.40
Value of target performance option grants[4, 5]	–	1.40
Total in CHF	**7.90**	**7.10**
Total in USD[6]	**8.60**	**7.00**

[1] The remuneration shown in the table is gross, based on the accrual principle and does not include any business related expenses incurred in the performance of the CEO's services.
[2] The amounts reflect the total value of pension benefits, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service costs do not include the interest costs on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
[3] Includes employee benefits, perquisites, benefits-in-kind and any other payments due under the employment contract. Benefits-in-kind have been valued using market rates.
[4] The share and share option grants will vest in the future according to the achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in Note 24 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 243.60 for 2011 and CHF 259.90 for 2010).
[5] From 2011 onwards, options are no longer granted.
[6] Mr Senn's remuneration is paid in Swiss francs. The amounts have been translated from Swiss francs to US dollars at the relevant exchange rates throughout the year and the cash incentive to be paid in 2012 has been translated at the year-end rate in 2011. The increase in US dollars is entirely due to fluctuations in exchange rates.

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

During 2011, one member retired and another left the Group. Agreements with the departing members provided remuneration in accordance with their employment contracts. No termination payments were paid.

Remuneration for former Group Executive Committee members

As described in last year's report the member retiring at the end of 2010, after long service with the Group, is being retained as a consultant in 2011 and 2012. Recognizing the prior contractual obligations, adherence to post-employment obligations and the provision of services in 2011 the member received remuneration in the amount of USD 2.4 million during 2011. No other former members of the GEC received remuneration in 2011.

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

Share grants

Performance share grants

The total number of target performance share grants outstanding as of December 31, 2011 for members of the GEC as of December 31, 2011 under the Group's Long-Term Incentive Plan was 77,273 (56,453 as of December 31, 2010). A summary of the outstanding grants as of December 31, 2011 is set out in the table below:

Summary of outstanding performance share grants

Performance period	Target performance share grants	Allocated price in CHF	Future years of vesting
2011–2013	55,975	243.60	2012–2014
2010–2012	13,864	259.90	2012–2013
2009–2011	7,434	198.10	2012

Within the context of the Group's Long-Term Incentive Plan, these performance share grants are considered for vesting in one-third installments during the three years after the grant. The actual level of vesting is determined in accordance with the remuneration principles set out above on page 55 and the Long-Term Incentive Plan vesting matrix as described on page 59.

Restricted share grants
There were 494 restricted shares outstanding as of December 31, 2011 for members of the GEC (987 restricted shares were outstanding at the end of 2010).

Share option grants
Under the share option program for senior management, the Group has issued share options in the past to individuals within defined rules. Starting in 2011, there are no further option grants.

The first share option grant was made in 1999 and regular annual grants have been made since then. Prior to 2003, option grants were typically made on the basis of a seven-year option term, a three-year vesting period and an exercise price set at a 10 percent premium to the market rate during the month prior to the grant date. Under the rules of the plan, other parameters are allowed for option grants made under the share option program. In connection with the re-design of the Long-Term Incentive Program in 2003, the exercise price for the options granted since then has been set at the market price on the day prior to the date of grant. The performance based option grants are considered for vesting in one-third installments during the three years after the grant. The actual level of vesting is determined by the Long-Term Incentive Plan vesting matrix as described on page 59. Option grants were made each year on the third working day in April.

In order to prevent executives from losing the value of their options, in 2011, the Board approved an automatic exersale for all options being in the money at the end of the exercise period. A loss would otherwise occur if the executive was prohibited from dealing due to being in possession of price-sensitive information.

Under the share option program, the total number of shares under option for the GEC members as of December 31, 2011, and 2010, respectively, is set out in the tables below.

Summary of outstanding options, 2011

as of December 31, 2011

Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2010	83,615	123,883	207,498	259.90	2017
2009	67,035	23,730	90,765	198.10	2016
2008	87,858	–	87,858	336.50	2015
2007	78,213	–	78,213	355.75	2014
2006	48,519	–	48,519	308.00	2013
2005	21,500	–	21,500	206.40	2012
Total	**386,740**	**147,613**	**534,353**		

Remuneration report *continued*

Summary of outstanding options, 2010

as of December 31, 2010

Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2010	–	257,236	257,236	259.90	2017
2009	53,541	70,000	123,541	198.10	2016
2008	93,165	28,851	122,016	336.50	2015
2007	134,069	–	134,069	355.75	2014
2006	87,695	–	87,695	308.00	2013
2005	66,115	–	66,115	206.40	2012
2004	28,417	–	28,417	213.25	2011
2001	9,142	–	9,142	322.30	2012
Total	**472,144**	**356,087**	**828,231**		

All options mentioned above entitle the holder to purchase one share of Zurich Financial Services Ltd at the exercise price stated with normal voting and dividend rights.

Share and share option holdings of the Group Executive Committee

The following table sets out the actual share and share option holdings of GEC members as of December 31, 2011 and 2010. In addition to any shares acquired in the market, the numbers include vested shares, whether sales restricted or not, and vested share options received under the Group's Long-Term Incentive Plan. However, the table does not include the share interests of the members of the GEC through their participation in the currently unvested performance shares, unvested restricted shares or unvested performance share options.

All interests are beneficial and include shares or share options held by related parties to the GEC members.

Share and vested share option holdings of the GEC members[1]

Number of vested shares and vested share options, as of December 31	2011		2010	
	Shares	Vested options[2]	Shares	Vested options[2]
M. Senn, Chief Executive Officer	20,936	81,362	15,806	49,220
J. Amore, Senior Advisor[3]	–	–	21,590	102,147
M. Foley, Chief Executive Officer North America Commercial and Regional Chairman of the Americas	9,726	41,348	10,459	23,996
M. Greco, Chief Executive Officer General Insurance	7,847	36,885	5,387	15,809
K. Hogan, Chief Executive Officer Global Life	1,466	8,185	442	2,237
P. Hopkins, Chairman of the Board of Farmers Group, Inc. and former Regional Chairman of the Americas[4]	–	–	7,733	48,381
A. Lehmann, Chief Risk Officer and Regional Chairman of Europe	18,671	86,713	16,711	64,628
C. Orator, Chief Administrative Officer	5,868	12,987	5,026	14,035
C. Reyes, Chief Investment Officer	2,555	15,123	1,333	6,002
G. Riddell, Regional Chairman of Asia-Pacific & Middle East	22,182	62,685	19,071	67,640
K. Terryn, Group Head of Operations	2,239	16,391	1,187	10,233
P. Wauthier, Chief Financial Officer[5]	3,936	25,061	–	–
D. Wemmer, Chief Financial Officer and Regional Chairman of Europe[6]	–	–	17,102	67,816
	95,426	**386,740**	**121,847**	**472,144**

[1] None of the GEC members together with parties related to them held more than 0.5 percent of the voting rights as at December 31, 2011 or 2010, either directly or through share options.
[2] The distribution of the vested options according to the grants identified in the tables "Summary of outstanding options" is shown in the table below.
[3] Mr Amore retired on December 31, 2010.
[4] Mr Hopkins retired on June 30, 2011.
[5] Mr Wauthier was appointed on October 1, 2011.
[6] Mr Wemmer left the function on September 30, 2011.

The following tables show how the totals of the vested share options owned by the GEC members are distributed according to the grants identified in the tables "Summary of outstanding options" as of December 31, 2011 and 2010, respectively.

Distribution of vested share options 2011[1]

Number of vested share options as of December 31, 2011	Year of grant						Total
	2010	2009	2008	2007	2006	2005	
M. Senn	21,663	11,603	17,094	19,200	11,802	–	81,362
M. Foley	9,316	9,869	11,568	10,595	–	–	41,348
M. Greco	11,606	11,603	13,676	–	–	–	36,885
K. Hogan	3,974	4,211	–	–	–	–	8,185
A. Lehmann	11,606	11,603	17,094	17,028	13,420	15,962	86,713
Ch. Orator	2,437	1,142	3,589	3,034	2,785	–	12,987
C. Reyes	7,737	1,530	2,256	1,950	1,650	–	15,123
G. Riddell	8,670	8,868	14,330	18,623	12,194	–	62,685
K. Terryn	3,465	3,465	3,624	3,108	2,729	–	16,391
P. Wauthier[2]	3,141	3,141	4,627	4,675	3,939	5,538	25,061
Total	**83,615**	**67,035**	**87,858**	**78,213**	**48,519**	**21,500**	**386,740**

[1] Mr Hopkins retired on June 30, 2011. Mr Dailey was appointed as CEO of Farmers and member of the GEC as of January 1, 2012.
[2] Mr Wauthier was appointed on October 1, 2011.

Distribution of vested share options 2010

Number of vested share options as of December 31, 2010	Year of grant							Total
	2009	2008	2007	2006	2005	2004	2001	
M. Senn	6,164	12,054	19,200	11,802	–	–	–	49,220
J. Amore[1]	6,991	12,236	22,703	17,893	17,269	15,913	9,142	102,147
M. Foley	5,243	8,158	10,595	–	–	–	–	23,996
M. Greco	6,164	9,645	–	–	–	–	–	15,809
K. Hogan	2,237	–	–	–	–	–	–	2,237
P. Hopkins[2]	5,243	9,177	17,028	13,420	10	3,503	–	48,381
A. Lehmann	6,164	12,054	17,028	13,420	15,962	–	–	64,628
Ch. Orator	1,294	2,531	3,034	2,785	4,391	–	–	14,035
C. Reyes	812	1,590	1,950	1,650		–	–	6,002
G. Riddell	4,711	10,106	18,623	12,194	15,633	6,373	–	67,640
K. Terryn	1,841	2,555	3,108	2,729	–	–	–	10,233
D. Wemmer[3]	6,677	13,059	20,800	11,802	12,850	2,628	–	67,816
Total	**53,541**	**93,165**	**134,069**	**87,695**	**66,115**	**28,417**	**9,142**	**472,144**

[1] Mr Amore retired on December 31, 2010.
[2] Mr Hopkins retired on June 30, 2011.
[3] Mr Wemmer left the function on September 30, 2011.

Trading plans

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

In 2011, the Board of Directors approved the extension of the trading plan concept to selected executives who are often prohibited from being able to deal in Zurich securities because of the nature of their function.

Remuneration report *continued*

Additional honoraria and remuneration for members of the Group Executive Committee

None of the members of the GEC received any remuneration from the Group or from any of the Group's companies in 2011 and 2010 other than as set out above.

Personal loans for members of the Group Executive Committee

As of December 31, 2011 and as of December 31, 2010, there were no loans, advances or credits outstanding for GEC members.

Personal loans for former members of the Group Executive Committee

Former members of the GEC are eligible to continue their mortgage loans following retirement on similar terms to those when they were employed, in line with the terms available to employees in Switzerland as stated above.

As of December 31, 2011 and as of as of December 31, 2010 no former member of the GEC had any outstanding loans, advances or credits.

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

No benefits (or waiver of claims have been provided to related parties of GEC members or related parties of former members of the GEC during the year 2011 and 2010. Neither had any related party of GEC members or of former members of the GEC outstanding loans, advances or credits as of December 31, 2011 and 2010.

All employees

The following section includes information regarding the total remuneration earned by employees for the financial year 2011 across the Group, including remuneration for GEC members. The information provided is set out in accordance with the additional disclosure requirements defined in the FINMA Circular on Remuneration Schemes, applicable for the first time in 2010. The Group had 52,648 and 54,934 employees (full-time equivalents) as of December 31, 2011 and 2010, respectively.

Fixed remuneration

Fixed remuneration comprises base salaries, other remuneration and service costs for pension benefits.

Fixed remuneration

in USD million, for the year ended December 31	2011	2010
Base salaries	4,025	3,746
Value of other remuneration[1]	578	577
Service Costs for pension benefits[2]	451	386
Total fixed remuneration	**5,054**	**4,709**

[1] Includes employee benefits like health and dental insurance and other fringe benefits etc.
[2] This represents the increase in the present value of the defined benefit pensions arising from employee service over the accounting period. The amount shown is calculated using actuarial factors and can vary year on year as economic conditions change.

Variable remuneration:

Based on recommendations of the Remuneration Committee, the Board of Directors approves the aggregate amount of the Total Variable Remuneration Pool for the performance year. This comprises:

- The total expenditure on cash incentives to be paid for the performance year comprising the amount of the aggregated funding pools under the Group Short-Term Incentive Plan (STIP) and the amounts to be paid under the local short-term incentive plans.
- The value of the target long-term incentive grants made during the year on the assumption that the grants will vest in the future at the 100 percent level.
- The total amount of severance payments made in the performance year. These payments were made to people whose termination date was in 2011.
- The total amount of sign-on incentive payments made in the performance year. These payments were made to people whose hire date was in 2011.

As a principle, the Group does not grant sign-on or severance payments. However, if circumstances in the Group's interest warrant such payments, clear approval processes are followed.

The figures do not include any charges or credits that originate from remuneration paid out during the financial year 2011 that derive from previous financial years.

Commission payments made to employed sales agents are not included in the calculation of the Total Variable Remuneration Pool. The sales commission plans of employed agents are not considered part of the profitability based incentive plans. Sales commissions, like the commissions paid to a broker or other external distributors represent a distribution cost. The employed sales agents do not generate financial risks as they are not involved in establishing the price levels for the products they sell. With regard to operational and reputation risks, in particular due to potential mis-selling, the control of these risks is addressed by the mandatory and Group-wide adherence to the Zurich Risk Policy and Zurich Basics, the Group's code of conduct.

In determining the amount of the Total Variable Remuneration Pool, the Board of Directors considers the long-term economic performance of the Group as well as other relevant factors. In particular the Board of Directors verifies that the amount of the Total Variable Remuneration Pool is lower than the average economic profit earned over a three year period. The average economic profit is calculated by subtracting the required return on capital, based on the weighted average cost of capital, from the adjusted Business Operating Profit after Tax. For 2011, the average economic profit generated over the previous three years was higher than the value of the Total Variable Remuneration Pool which is set out below, as was the case in 2010.

Variable remuneration

in USD million, for the year ended December 31	2011	2010
Cash incentive awards earned for the year[1]	482	527
Value of target performance and restricted share grants made in the year[2, 3]	136	92
Value of target performance option grants made in the year[3, 4]	–	28
Total Variable Remuneration Pool	**618**	**647**

[1] Includes sign-on and severance payments in cash.
[2] Includes sign-on payments in shares.
[3] The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in Note 24 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 243.60 for 2011 and CHF 259.90 for 2010). The charges in the financial statements may be calculated on different vesting basis.
[4] From 2011 onwards, options are no longer granted.

The total number of beneficiaries receiving variable remuneration is approximately 48,000 in 2011 (52,000 in 2010).

Total remuneration

Combining the fixed and variable remuneration the total remuneration for all employees is as follows:

Total remuneration

in USD million, for the year ended December 31	2011	2010
Cash – fixed	4,025	3,746
Cash – variable[1]	482	527
Shares[2]	136	92
Options[3]	–	28
Other[4]	1,029	963
Total remuneration	**5,672**	**5,356**

[1] Includes cash incentive awards, sign-on and severance payments in cash.
[2] Includes performance share grants, restricted share grants and sign-on payment in shares.
[3] Includes performance option grants. From 2011 onwards, options are no longer granted.
[4] Includes other remuneration and pension benefits.

Remuneration report *continued*

Value of outstanding deferred remuneration

The Group's remuneration system includes instruments for the deferral of remuneration, and the following table provides an overview of the overall value of the outstanding deferred remuneration at December 31, 2011 and 2010:

Value of outstanding deferred remuneration

in USD million, for the year ended December 31	2011	2010
Unvested performance share grants	203	166
Unvested performance option grants	22	53
Unvested restricted share grants	6	6
Vested but sales restricted shares	143	148
Value of overall outstanding deferred remuneration	**374**	**372**

The value of the deferred remuneration has been determined by multiplying the number of outstanding shares and options by the relevant share price and option price at the original date of grant and reflects the assumption of a 100 percent vesting level.

Impact on net income in 2011 and 2010 from remuneration granted in prior years

Under the Group Long-Term Incentive Plan, a calculation is made at the date of vesting each year to determine the actual number of shares and options to be awarded to plan participants relative to the number that was expected to be awarded at the grant date. Any difference in value is charged to income in the year of vesting. For shares and options vesting in 2011 and in 2010, there was no material difference in the actual and estimated amounts and therefore there was no financial impact in 2011 or in 2010.

Sign-on and severance payments for Key Risk Takers

As mentioned above, the Group as a principle does not grant sign-on or severance payments. However, if circumstances in the Group's interest warrant such payments, these can be approved through a clear governance process. With regard to the disclosure of sign-on and severance payments for the individuals considered to be key risk takers for the Group, the following sign-on and severance payments were made to this group of individuals in 2011 and in 2010:

Sign-on and severance payments for Key Risk Takers

in USD million, for the year ended December 31	2011	# of beneficiaries	2010	# of beneficiaries
Sign-on payments paid/number of beneficiaries[1]	3	7	–	–
Severance payments paid/number of beneficiaries[2]	3	7	1	2
Total of sign-on and severance payments	**6**	**14**	**1**	**2**

[1] Sign-on payments are a one-time commitment to make payments that are agreed on the execution of an employment contract which can include remuneration for incentives foregone with a previous employer.

[2] These severance payments include payments to employees or former employees, in cash or in any other form, that represent additional benefits in excess of what is required by applicable law/statute. They do not include payments corresponding to standard "garden leave", that are not contrary to applicable law, and do not go beyond reasonable local market practice in amount, nature or duration, and are in accordance with reasonable payments generally made in the relevant market to persons in comparable positions.

Group performance review

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Operating and financial review

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

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

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The information contained within the Operating and financial review is unaudited and presents the consolidated results of the Zurich Financial Services Group for the years ended December 31, 2011 and 2010, respectively. This document should be read in conjunction with the Annual Report 2011 and with its audited Consolidated financial statements as of December 31, 2011. All amounts are shown in U.S. dollars, rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. In addition to the figures stated according to the International Financial Reporting Standards (IFRS), Zurich Financial Services Group uses business operating profit (BOP) measures and other performance indicators to enhance the understanding of its results. These additional measures should be viewed as complementary to, and not a substitute for, the figures determined according to the IFRS. For a reconciliation of BOP to net income after income taxes see note 29 of the audited Consolidated financial statements. Certain comparative figures have been restated, as set out in note 1 of the audited Consolidated financial statements.

Financial highlights

in USD millions, for the years ended December 31, unless otherwise stated	2011	2010	Change[1]
Business operating profit	**4,261**	4,870	(12%)
Net income attributable to shareholders	**3,766**	3,428	10%
General Insurance gross written premiums and policy fees	**34,572**	33,066	5%
Global Life gross written premiums, policy fees and insurance deposits	**27,711**	27,675	–
Farmers Management Services management fees and other related revenues	**2,767**	2,778	–
Farmers Re gross written premiums and policy fees	**3,529**	4,194	(16%)
General Insurance business operating profit	**2,265**	2,667	(15%)
General Insurance combined ratio	**98.8%**	97.9%	(0.9 pts)
Global Life business operating profit	**1,353**	1,474	(8%)
Global Life new business annual premium equivalent (APE)	**3,992**	3,699	8%
Global Life new business margin, after tax (as % of APE)[2]	**24.5%**	23.3%	1.2 pts
Global Life new business value, after tax[2]	**980**	862	14%
Farmers business operating profit	**1,486**	1,686	(12%)
Farmers Management Services gross management result	**1,333**	1,338	–
Farmers Management Services managed gross earned premium margin	**7.3%**	7.3%	–
Average Group investments	**195,141**	195,532[3]	–
Net investment result on Group investments	**9,367**	7,990	17%
Net investment return on Group investments	**4.8%**	4.1%	0.7 pts
Total return on Group investments	**5.4%**	5.4%	–
Shareholders' equity	**31,636**	31,905	(1%)
Diluted earnings per share (in CHF)	**22.62**	24.33	(7%)
Book value per share (in CHF)	**203.15**	202.18	–
Return on common shareholders' equity (ROE)	**11.9%**	11.4%	0.6 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	**10.2%**	12.9%	(2.6 pts)

[1] Parentheses around numbers represent an adverse variance.
[2] Changes to the basis of calculation of embedded value, including new business, are set out in the Embedded value report and in the Global Life section of the Operating and financial review.
[3] Excluding average cash received as collateral for securities lending of USD 246 million in the year ended December 31, 2010

Operating and financial review *continued*

Performance overview for the year ended December 31, 2011

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

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

The Group's capital position remains strong with shareholders' equity of USD 31.6 billion at broadly the same level as December 31, 2010 after recording the total cost of USD 2.7 billion for dividends, despite volatile financial markets, currency fluctuations and financial market impacts on pension liabilities. In March 2011, Moody's Investors Service upgraded the insurance financial strength rating of Zurich Insurance Company Ltd to Aa3 from A1 and also upgraded its debt ratings. The Group's good results and strong balance sheet have enabled the Board of Directors to propose a dividend of CHF 17.00 per share, demonstrating the Group's ongoing commitment to shareholder value.

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

Business operating profit decreased by USD 608 million to USD 4.3 billion, or by 12 percent in U.S. dollar terms and 14 percent on a local currency basis.

- **General Insurance** business operating profit decreased by USD 402 million to USD 2.3 billion, or by 15 percent in U.S. dollar terms and 19 percent on a local currency basis. The sustained focus on profitability has continued to produce strong improvements in the underlying loss ratio, helping to partly offset the effect of the exceptional frequency and overall severity of catastrophe and significant weather-related loss events. Major catastrophe losses of USD 1.0 billion in 2011, before the Group's aggregate catastrophe reinsurance recovery, arose from floods and earthquakes in the Asia-Pacific region and a hurricane in the U.S. By comparison, major catastrophe losses in 2010 were USD 275 million due to the earthquake in Chile and floods in Australia.

- **Global Life** business operating profit decreased by USD 121 million to USD 1.4 billion, or by 8 percent in U.S. dollar terms and 14 percent on a local currency basis. Increased fee income from higher average assets under management plus higher margins from protection business partly offset the higher costs related to investments in the global operations strategy, lower investment margin due to the continuing low interest rate environment, and accelerated deferred acquisition cost amortization resulting from lower European equity markets and interest rates compared with December 31, 2010.

- **Farmers** business operating profit decreased by USD 200 million to USD 1.5 billion, or by 12 percent. **Farmers Management Services** business operating profit increased by USD 5 million to USD 1.4 billion, mainly due to a reduction of 21st Century integration expenses in 2011. These savings were partially offset by lower revenues resulting from the planned run-off of the 21st Century agency auto book of business in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. **Farmers Re** business operating profit decreased by USD 205 million to USD 116 million, or by 64 percent, reflecting the net reduction in the All Lines Quota Share reinsurance agreement (All Lines agreement) with the Farmers Exchanges, as well as high weather-related losses in the U.S. in 2011, higher loss trends, and reduced investment income.

Other Operating Businesses reported an increase in its business operating loss of USD 34 million to USD 835 million primarily as a result of positive one-off items included in 2010, as well as the strengthening of the Swiss franc against the Group's reporting currency, the U.S. dollar.

Non-Core Businesses reported a business operating loss of USD 8 million compared with a loss of USD 157 million in 2010. The improvement resulted mainly from lower banking loan loss provisions of USD 128 million compared with USD 349 million in 2010.

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

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

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

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

Net income attributable to shareholders increased by USD 339 million to USD 3.8 billion, or by 10 percent. The overall result benefited from net capital gains including the gain realized on the sale of part of the Group's investment in New China Life Insurance Co., Ltd (NCI), and valuation gains on derivatives. In 2010, costs were recorded for the settlement of a class action suit in the U.S. The **shareholders' effective tax rate** was 24.1 percent for the year ended December 31, 2011, compared with 20.3 percent for the year ended December 31, 2010, primarily as a result of fluctuations in the geographic profit mix, as well as favorable one-off tax settlements in 2010.

ROE of 11.9 percent increased by 0.6 percentage points due to the increase in net income attributable to shareholders. **BOPAT ROE** was 10.2 percent. **Diluted earnings per share** decreased to CHF 22.62 for the year ended December 31, 2011, compared with CHF 24.33 in 2010.

Operating and financial review *continued*

General Insurance

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

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

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

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

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

Global Corporate

in USD millions, for the years ended December 31	2011	2010	Change
Gross written premiums and policy fees	7,949	7,624	4%
Net underwriting result	(301)	205	nm
Business operating profit	**169**	**741**	**(77%)**
Loss ratio	85.3%	74.7%	(10.6 pts)
Expense ratio	20.3%	21.1%	0.8 pts
Combined ratio	**105.6%**	**95.8%**	**(9.8 pts)**

Business operating profit of USD 169 million decreased by USD 572 million compared with 2010 mainly due to major catastrophes and weather-related losses but also due to higher large losses, which masked significant improvement in the underlying underwriting result. Investment income increased compared with 2010 due to higher invested assets, but this was more than offset by a deterioration of non-technical expenses in 2011 as a result of fewer gains on foreign currency transactions and other positive one-offs in 2010.

Gross written premiums and policy fees increased by USD 325 million to USD 7.9 billion, or by 4 percent in U.S. dollar terms but remained flat on a local currency basis. The focus has remained on specific growth initiatives, such as international program business, and on underwriting and pricing discipline. Average rates increased by 3 percent on business written across all regions and higher retention levels have been achieved despite the very competitive market environment. Customer insured exposures have increased in North America, while they have decreased in Europe due to the worsening economic environment in some countries. Premiums in Asia-Pacific and Middle East continued to increase, although from a small base, reflecting the strategy to expand the Group's presence in those markets.

The **net underwriting result** deteriorated by USD 506 million to a loss of USD 301 million reflected in the 9.8 percentage points increase in the combined ratio to 105.6 percent. The loss ratio deteriorated by 10.6 percentage points compared with 2010. Underlying loss ratio improvements resulting from increased rates and better risk selection helped to compensate for the significant impact from major catastrophe and weather-related events. The expense ratio improved 0.8 percentage points to 20.3 percent mainly driven by higher volumes and a reduction in other underwriting expenses as a result of disciplined cost management. This was partially offset by continued strategic investments in both Asia-Pacific and the Middle East.

Operating and financial review *continued*

North America Commercial

in USD millions, for the years ended December 31	2011	2010	Change
Gross written premiums and policy fees	9,777	9,728	1%
Net underwriting result	315	217	45%
Business operating profit	**1,048**	**1,118**	**(6%)**
Loss ratio	67.0%	67.3%	0.3 pts
Expense ratio	28.8%	29.8%	1.0 pts
Combined ratio	**95.9%**	**97.1%**	**1.3 pts**

Business operating profit decreased by USD 70 million to USD 1.0 billion, or by 6 percent in U.S. dollar terms. The net underwriting result improved by USD 98 million compared with 2010, but this improvement was offset by lower investment income as a result of lower yields and lower hedge fund gains reflecting market volatility.

Gross written premiums and policy fees increased by USD 49 million to USD 9.8 billion, or by 1 percent, reflecting average rate increases of 3 percent in the highly competitive U.S. market, with significant rate increases in all lines of business. Strong competition and the effects of rigorous re-underwriting and tiering strategies reduced volumes and resulted in the non-renewal of certain unprofitable accounts. Retention of profitable business through risk selection and segmentation strategies continued to be the focus. Nevertheless, overall retention levels and new business improved towards the end of 2011 compared with 2010. The improvement in new business has been achieved in specific targeted segments such as energy casualty, mid-market commercial and construction services.

The **net underwriting result** improved by USD 98 million to USD 315 million, or by 45 percent, reflected in the 1.3 percentage points improvement in the combined ratio to 95.9 percent. The underwriting result was favorably impacted by an improvement in the underlying loss ratio, reflecting the Group's disciplined underwriting, and higher levels of favorable development of reserves established in prior years. These improvements more than offset the higher weather-related losses primarily due to a series of tornadoes which hit the Midwest and Southeast regions of the U.S. in April and May and by Hurricane Irene which struck the eastern seaboard of the U.S. in August. The expense ratio improved by 1.0 percentage points driven primarily by a 0.8 percentage points reduction in the commission ratio relating to certain one-off impacts including profit commissions on crop business paid in 2010 and changes in business mix. Lower operating expenses contributed to an improvement of 0.2 percentage points in other underwriting expenses.

Europe

in USD millions, for the years ended December 31	2011	2010	Change
Gross written premiums and policy fees	12,932	12,427	4%
Net underwriting result	379	287	32%
Business operating profit	**964**	**774**	**25%**
Loss ratio	70.8%	72.3%	1.5 pts
Expense ratio	26.2%	25.4%	(0.8 pts)
Combined ratio	**97.0%**	**97.7%**	**0.7 pts**

Business operating profit increased by USD 190 million to USD 964 million, or by 25 percent in U.S. dollar terms and 12 percent on a local currency basis. The performance was driven by an improvement in the underwriting result and lower non-technical expenses. Though in U.S. dollar terms investment income increased slightly, on a local currency basis it decreased mainly due to lower yields and capital repatriation to the Group reducing the asset base. The significant improvement in non-technical expenses arose from a reduction in regional costs in 2011 as a result of a simplified management structure, while 2010 was unfavorably impacted by an impairment in Russia.

Gross written premiums and policy fees increased by USD 505 million to USD 12.9 billion, or by 4 percent in U.S. dollar terms, but decreased 3 percent on a local currency basis. The overall market and economic environment in many European countries continued to remain challenging with depressed economic activity and higher unemployment. Actions taken to improve profitability particularly in the personal motor portfolio have resulted in lower volumes. Overall rate increases of 4 percent were achieved in 2011, with the highest increases in the UK, Italy and Spain. Despite these increases, customer retention levels improved slightly compared with 2010.

The **net underwriting result** increased by USD 91 million to USD 379 million, reflected in the improvement of the combined ratio of 0.7 percentage points to 97.0 percent. Improvements in the underwriting result arising from the continued focus on underwriting strategies, including rate increases and improvements in the underlying loss ratio, were partially offset by increased weather-related losses, such as the severe hailstorms in Switzerland and Germany which amounted to USD 136 million in total, floods in Ireland, and by riots in the UK, as well as lower favorable development of reserves established in prior years. In Germany, the underwriting result was impacted by the strengthening of loss reserves and changes in assumptions on unearned premium reserves. Corrective actions on personal motor lines in the UK, Italy and Russia improved the overall result. The expense ratio increased by 0.8 percentage points due to higher commissions, reflecting business mix changes and upward pressure on commissions, increases in bad debt provisions as well as the impact of lower net earned premiums.

Operating and financial review *continued*

International Markets

in USD millions, for the years ended December 31	2011	2010	Change
Gross written premiums and policy fees	4,425	3,854	15%
Net underwriting result	(265)	(68)	nm
Business operating profit	**(156)**	**84**	**nm**
Loss ratio	72.9%	67.3%	(5.6 pts)
Expense ratio	34.9%	35.0%	0.1 pts
Combined ratio	**107.8%**	**102.3%**	**(5.5 pts)**

Business operating loss of USD 156 million deteriorated by USD 240 million from a profit of USD 84 million in 2010, driven by the decrease in the underwriting result. Higher yields as well as a higher asset base driven by portfolio growth led to an increase in investment income. Non-technical expenses reverted to normal levels following favorable currency revaluations in Latin America in 2010.

Gross written premiums and policy fees increased by USD 571 million to USD 4.4 billion, or by 15 percent in U.S. dollar terms and 10 percent on a local currency basis. Growth in Latin America was 21 percent on a local currency basis, mainly driven by growth in motor and specialties business in Brazil as well as growth in motor business in Argentina. Asia-Pacific achieved growth of 5 percent on a local currency basis driven by rate increases in Australia and strong growth in Japan and Southeast Asian countries. Premiums in Middle East and Africa increased by 1 percent due to the acquisition of Compagnie Libanaise D'Assurances in Lebanon, partly offset by re-underwriting actions in South Africa.

The **net underwriting result** decreased by USD 197 million to a loss of USD 265 million reflected in the 5.5 percentage points increase in the combined ratio to 107.8 percent. The loss ratio increased by 5.6 percentage points to 72.9 percent, impacted by the major catastrophe losses from the floods in Australia, the tsunami and earthquake in Japan and the earthquakes in New Zealand, as well as by the severe weather events in Australia including the Victoria storms and Cyclone Yasi. These impacts were partially offset by benign catastrophe experience in Latin America, which in 2010 was affected by the earthquake in Chile. The lower expense ratio was mainly driven by targeted expense saving initiatives partially offset by investments in emerging markets.

Global Life

in USD millions, for the years ended December 31	2011	2010	Change
Insurance deposits	16,127	15,382	5%
Gross written premiums and policy fees	11,583	12,292	(6%)
Net investment income on Group investments	4,146	3,892	7%
Insurance benefits and losses, net of reinsurance	(9,503)	(10,140)	6%
Business operating profit	**1,353**	**1,474**	**(8%)**
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts	184,599	187,196	(1%)
Assets under management[1]	219,749	222,326	(1%)
Net policyholder flows[2]	2,769	5,520	(50%)
New business – highlights[3, 4]			
New business annual premium equivalent (APE)	**3,992**	**3,699**	**8%**
Present value of new business premiums (PVNBP)	33,399	31,399	6%
New business margin, after tax (as % of APE)	**24.5%**	**23.3%**	**1.2 pts**
New business margin, after tax (as % of PVNBP)	2.9%	2.7%	0.2 pts
New business value, after tax	**980**	**862**	**14%**

1 Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties, on which the business earns fees.
2 Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.
3 In 2011, new business figures have been determined including a liquidity premium in the discount rate and, for greater consistency with other European insurers, a cost of capital applied to residual non-hedgeable risks of 4 percent. The 2010 comparatives have been restated to reflect these changes.
4 A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011 contributing USD 119 million to new business value, after tax, of which USD 116 million relates to international group protection business included in Other businesses, and 3.0 percent to new business margin, after tax. The refinement results from the inclusion of the value expected to be generated over the entire life of the contract in corporate protection business rather than the value expected to be generated up to the next review date in those contracts.

in USD millions, for the years ended December 31	New business value (NBV), after tax		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE)		Business operating profit (BOP)	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
North America	60	73	111	98	54.3%	75.0%	227	241
Latin America	71	52	313	202	22.6%	25.7%	49	76
Europe	547	576	2,883	2,796	19.0%	20.6%	953	1,085
of which:								
United Kingdom	*154*	*128*	*1,235*	*961*	*12.5%*	*13.3%*	*275*	*360*
Germany	*171*	*210*	*588*	*653*	*29.1%*	*32.1%*	*295*	*331*
Switzerland	*9*	*1*	*151*	*89*	*6.0%*	*1.5%*	*267*	*244*
Ireland	*67*	*86*	*331*	*378*	*20.2%*	*22.7%*	*18*	*47*
Spain	*107*	*110*	*367*	*509*	*29.2%*	*21.5%*	*31*	*27*
Rest of Europe	*38*	*41*	*212*	*204*	*18.0%*	*20.3%*	*67*	*76*
Asia-Pacific and Middle East	136	112	524	463	25.9%	24.3%	124	79
Other	167	49	161	141	103.7%	34.5%	–	(6)
Total	**980**	**862**	**3,992**	**3,699**	**24.5%**	**23.3%**	**1,353**	**1,474**

Global Life continues to make progress toward its strategic objective of diversifying into the higher growth markets of Latin America and Asia-Pacific and Middle East. The new business annual premium equivalent (APE) and new business value (NBV) generated by growth in these regions largely mitigated challenging market conditions in individual life business in Europe. In Spain and Ireland, pricing behavior in the market on certain lines of business was on terms considered uneconomic by the Group, and the single premium market in Germany has contracted compared with 2010. Protection products, which generate higher margins, contributed to growth in new business value across all regions except North America where new business value on protection business declined, despite increasing volumes, as a result of a change in persistency assumptions.

Operating and financial review *continued*

New business value, after tax was USD 980 million, an increase of USD 118 million or 14 percent in U.S. dollar terms and 7 percent on a local currency basis. Excluding the effect of the refinement in methodology described in footnote 4 of the results overview table, new business value was flat in U.S. dollar terms and decreased by 5 percent on a local currency basis. Volume growth was more than offset by a reduction in new business margin of 1.7 percentage points in local currency. In U.S. dollar terms, overall new business margin for the year remains at a strong level of 21.6 percent excluding the methodology change and 24.5 percent including the change. Margin was positively impacted by an increase in the proportion of protection business sold which was particularly evident in Spain, where higher levels of protection business meant new business value decreased only marginally compared with 2010 despite lower overall APE. The change in persistency assumptions in North America negatively impacted new business margin as did product mix in the UK which experienced higher growth in lower margin products. Lower interest rates in other countries in Europe also reduced margin on some lines of business.

New business annual premium equivalent was USD 4.0 billion, an increase of USD 293 million, or by 8 percent in U.S. dollar terms and 3 percent on a local currency basis. Growth in Latin America arose from increased sales of individual protection business and Corporate Life & Pensions business in Brazil and Mexico. Growth in Asia-Pacific and Middle East was driven by strong sales of corporate savings business and growth in sales from the International/Expats pillar. In Europe, growth in the Private Banking Client Solutions and Corporate Life & Pensions business in the UK was largely offset by reduced volumes in Germany, Ireland and Spain due to the challenging market conditions in those countries.

Business operating profit decreased by USD 121 million to USD 1.4 billion, or 8 percent in U.S. dollar terms and 14 percent on a local currency basis. Higher average stock market levels and assets under management during the first half of the year increased fee income compared with 2010. Margins from protection business also increased as a result of higher volumes and disciplined underwriting although these improvements were more than offset by market and expense impacts. Lower European equity market levels and interest rates at December 31, 2011, reduced investment margin and accelerated deferred acquisition cost amortization while expenses increased mainly due to higher investments in the global operations strategy.

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

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

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

NBV and APE by pillar

in USD millions, for the years ended December 31	New business value (NBV), after tax		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE)	
	2011	2010	2011	2010	2011	2010
Bank Distribution	201	233	700	932	28.8%	24.9%
IFA/Brokers	185	202	933	972	19.9%	20.8%
Agents	130	149	508	510	25.7%	29.3%
International/Expats	83	71	285	256	29.3%	27.7%
Total Retail pillars	**601**	**654**	**2,426**	**2,670**	**24.8%**	**24.5%**
Corporate Life & Pensions	293	129	1,175	729	24.9%	17.7%
Private Banking Client Solutions	20	12	271	207	7.4%	5.6%
Direct and Central Initiatives	66	66	120	93	55.1%	71.5%
Total	**980**	**862**	**3,992**	**3,699**	**24.5%**	**23.3%**

Bank Distribution decreased new business value by USD 31 million to USD 201 million, or by 13 percent in U.S. dollar terms and 17 percent on a local currency basis. This was predominantly driven by reduced volumes of single premium sales in Germany and significantly reduced volumes of savings business in Spain where pricing behavior in the market was on terms considered uneconomic by the Group leading to lower participation in this business. These reductions were partly offset by an increase of USD 15 million in new business value for higher margin protection products in Spain, driving an overall improvement in new business margin of 3.8 percentage points to 28.8 percent.

IFA/Brokers decreased new business value by USD 16 million to USD 185 million, or by 8 percent in U.S. dollar terms and 13 percent on a local currency basis. Growth in Latin America was more than offset by lower sales in the UK and the domestic Irish market as well as reduced volumes for cross-border business manufactured in the European hub in Ireland for distribution in Italy, where 2010 benefited from additional sales resulting from an Italian fiscal amnesty. Lower volumes also put pressure on new business margins which fell by 0.9 percentage points.

Agents decreased new business value by USD 19 million to USD 130 million, or by 13 percent in U.S. dollar terms and 15 percent on a local currency basis. Increased sales in Switzerland and Latin America improved new business value but this was offset by the negative impact of the reduced new business margin in North America resulting from a change in persistency assumptions and lower sales in Italy and Germany.

International/Expats increased new business value by USD 12 million to USD 83 million, or by 17 percent in U.S. dollar terms and 13 percent on a local currency basis. This was predominantly driven by volume growth in Asia-Pacific and Middle East, leveraging existing distribution capacity, together with an improvement of 1.5 percentage points in the overall new business margin to 29.3 percent.

Corporate Life & Pensions increased new business value by USD 164 million to USD 293 million. Excluding the corporate protection methodology refinement, new business value increased by USD 45 million, or by 34 percent in U.S. dollar terms and 23 percent on a local currency basis. Global relationships with major employee benefit consultants and leveraging the Group's Global Corporate presence drove volume increases in all regions, the most significant of which were in Asia-Pacific and Middle East and in the UK.

Private Banking Client Solutions increased new business value by USD 9 million to USD 20 million, or by 75 percent in U.S. dollar terms and 68 percent on a local currency basis. The growth in new business value was driven by the continued placements of tranches of investment bonds through bank partners in the UK.

Direct and Central Initiatives new business value remained level in U.S. dollar terms and decreased by 5 percent on a local currency basis. Growth in protection business in the affinity channel in Latin America was more than offset by reductions due to market disruption in Japan and low interest rates in Switzerland.

Operating and financial review *continued*

Farmers

Farmers business operating profit decreased by USD 200 million to USD 1.5 billion, or by 12 percent. This reduction reflects the reduced participation in the All Lines agreement in Farmers Re and an increase in losses compared with 2010, offset in part by slightly higher business operating profit in Farmers Management Services due to reduced integration expenses between years.

Farmers Management Services

in USD millions, for the years ended December 31	2011	2010	Change
Management fees and other related revenues	2,767	2,778	–
Management and other related expenses	(1,434)	(1,440)	–
Gross management result	1,333	1,338	–
Other net income	36	27	35%
Business operating profit	**1,370**	**1,365**	**–**
Managed gross earned premium margin	7.3%	7.3%	nm

Business operating profit of USD 1.4 billion increased by USD 5 million mainly driven by a reduction in operating expenses and 21st Century integration expenses in 2011 offset in part by lower revenue due to the planned run-off of the 21st Century agency auto book of business.

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

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

Farmers Re

in USD millions, for the years ended December 31	2011	2010	Change
Gross written premiums and policy fees	3,529	4,194	(16%)
Net underwriting result	(23)	134	nm
Business operating profit	**116**	**321**	**(64%)**
Loss ratio	70.5%	66.5%	(4.0 pts)
Expense ratio	30.2%	31.1%	0.8 pts
Combined ratio	**100.8%**	**97.6%**	**(3.2 pts)**

Business operating profit of USD 116 million decreased by USD 205 million, or by 64 percent, primarily due to an increase in losses in 2011 as well as the effect of the reduction in the All Lines agreement on both investment income and the underwriting result. Investment income decreased by USD 48 million, or by 26 percent primarily due to the lower All Lines agreement participation rates.

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

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

Farmers Exchanges

Farmers Exchanges

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

Gross written premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group, increased by USD 166 million to USD 18.3 billion. This increase was driven by premium growth in nearly all active lines of business, reflecting the acceleration of the underlying growth momentum during the later part of 2011, partially offset by the planned run-off of the 21st Century agency auto book of business. Excluding this effect, gross written premiums grew by 2 percent compared with 2010.

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

Operating and financial review *continued*

Other Operating Businesses

in USD millions, for the years ended December 31	2011	2010	Change
Business operating profit:			
Holding and financing[1]	(589)	(663)	11%
Headquarters	(246)	(138)	(78%)
Total business operating profit	**(835)**	**(801)**	**(4%)**

[1] Holding and financing contains business operating losses of USD 20 million and 25 million for the years ended December 31, 2011 and December 31, 2010 respectively, that were previously presented in a separate row, "Alternative investments."

Holding and financing reduced its business operating loss by USD 74 million to USD 589 million, or by 11 percent mainly reflecting movements in foreign currencies and the effect of the interest rate differential primarily between the euro and Swiss franc. **Headquarters** business operating loss increased by USD 108 million to USD 246 million, or by 78 percent. This was primarily driven by the effects of the strong Swiss franc in 2011 combined with the one-off reduction in pension expenses in 2010 following the outsourcing of an IT data center.

Non-Core Businesses

in USD millions, for the years ended December 31	2011	2010	Change
Business operating profit:			
Centrally managed businesses:	(11)	(215)	95%
Centre	60	39	55%
Banking activities	(90)	(307)	71%
Other centrally managed businesses	18	54	(66%)
Other run-off	3	58	(94%)
Total business operating profit	**(8)**	**(157)**	**95%**

Centrally managed businesses, which comprise run-off portfolios that are managed with the intention to pro-actively reduce capital risk while maximizing profit opportunities, reported a business operating loss of USD 11 million, compared with a loss of USD 215 million in 2010. This improvement was primarily driven by lower charges for loan loss provisions in Zurich's **Banking activities** of USD 128 million compared with USD 349 million in 2010. **Centre's** business operating profit increased by USD 21 million, mainly driven by reserve releases in its life business, slightly offset by a less positive impact from movements in financial markets on an insurance portfolio where both assets and liabilities are carried at fair value. **Other centrally managed businesses** reported a profit of USD 18 million driven by reserve releases in a part of the non-life run-off business, partially offset by costs and accounting-related charges in connection with the run-off of Zurich Specialties London Limited. In 2010, Other centrally managed businesses reported a profit of USD 54 million, mainly driven by positive reserve developments.

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

Investment position and performance

Breakdown of investments

in USD millions, as of	Group investments		Unit-linked investments	
	12/31/11	12/31/10	12/31/11	12/31/10
Cash and cash equivalents	8,768	8,182	1,280	1,544
Equity securities:	11,226	13,729	79,862	85,765
Common stocks, including equity unit trusts	8,355 [1]	10,005 [1]	68,308	76,187
Unit trusts (debt securities, real estate and short-term investments)	2,451	3,208	11,554	9,577
Common stock portfolios backing participating with-profit policyholder contracts	420	516	–	–
Debt securities	142,861	140,254	11,825	9,376
Real estate held for investment	8,468	8,274	3,898	4,081
Mortgage loans	11,058	11,851	–	–
Other loans	11,842	13,419	7,739	7,182
Investments in associates and joint ventures	161	188	–	–
Total	**194,385**	**195,898**	**104,603**	**107,947**

[1] Common stocks, including equity unit trusts contains Group investments of USD 89 million and 125 million for the years ended December 31, 2011, and December 31, 2010, respectively, that were previously presented in a separate row, "Trading equity portfolios in capital markets and banking activities."

Group investments decreased by USD 1.5 billion or 1 percent in U.S. dollar terms since December 31, 2010, mainly due to currency translation. On a local currency basis, total Group investments increased by USD 1.4 billion or 1 percent, driven mainly by the effects of falling interest rates on the value of debt securities but partially offset by lower equity markets.

Unit-linked investments decreased by USD 3.3 billion to USD 104.6 billion since December 31, 2010, or by 3 percent in U.S. dollar terms and 2 percent on a local currency basis as a result of the performance of financial markets.

The quality of the Group's investment portfolio remains high. Investment grade securities continue to comprise 98 percent of the Group's debt securities, of which 38 percent are rated AAA as of December 31, 2011. This is a decline of 15 percentage points since December 31, 2010 mainly due to the downgrade of the credit ratings of U.S. government securities. The Group's investment strategy remains disciplined and the Group continues to selectively reduce risks which it believes to be unacceptable, where the risks are not adequately compensated, or which incur disproportionately high regulatory capital charges.

Operating and financial review *continued*

Performance of Group investments

in USD millions, for the years ended December 31	2011	2010	Change
Net investment income	7,185	7,092	1%
Net capital gains/(losses) on investments and impairments	2,182	898	nm
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	1,515	279	nm
Net investment result	9,367	7,990	17%
Net investment return on Group investments	**4.8%**	**4.1%**	**0.7 pts**
Movements in net unrealized gains/(losses) on investments included in total equity	1,090	2,511	(57%)
Total investment result, net of investment expenses[1]	**10,458**	**10,501**	**–**
Average group investments[2]	195,141	195,532	–
Total return on Group investments	**5.4%**	**5.4%**	**–**

[1] After deducting investment expenses of USD 252 million and USD 225 million for the for the years ended December 31, 2011 and 2010, respectively
[2] Excluding average cash received as collateral for securities lending of USD 246 million for the year ended December 31, 2010

Total **net investment income** increased by 1 percent in U.S. dollar terms to USD 7.2 billion, but decreased by 4 percent on a local currency basis, driven mainly by lower reinvestment yields on debt securities.

Total **net capital gains on investments and impairments** were USD 2.2 billion, compared with gains of USD 898 million in 2010. This includes USD 1.5 billion of positive asset revaluations and USD 1.1 billion of net capital gains realized from active management, partially offset by impairments of USD 458 million.

Positive asset revaluations on securities booked at fair value through profit and loss were driven by gains on other investments of USD 925 million, largely from derivatives, gains on debt securities at fair value of USD 541 million, and gains on equity securities at fair value of USD 33 million. The gains on derivatives arose, as financial markets have fallen, on instruments held as economic hedges, where an underlying business or investment loss has largely been offset or where balance sheet risk has been mitigated.

The net capital gains from active management of equity securities were USD 549 million including USD 441 million from the sale of shares in NCI, that took place in June 2011. Net capital gains from active realizations of debt securities were USD 436 million, and net capital gains from the sale of other investments were USD 155 million.

Impairments of USD 270 million were attributable to equity securities, USD 133 million to mortgages and other investments and USD 55 million to debt securities.

Net investment return on Group investments increased to 4.8 percent compared with 4.1 percent in 2010 due to higher investment income and net capital gains, while average Group investments remained largely unchanged.

Net unrealized gains/losses on investments included in total equity have increased by USD 1.1 billion since December 31, 2010, mainly driven by higher net unrealized gains on debt securities of USD 1.7 billion as interest rates have continued to fall. Though yields on government bonds fell in both periods, credit spreads widened significantly compared with 2010 and partially offset the positive impact of falling yields. Net unrealized gains on equity securities decreased by USD 808 million since December 31, 2010. This reduction was driven by the realization of gains on the sale of shares in NCI and by deteriorating equity markets mainly in the last six months of the year. Net unrealized gains on other investments increased by USD 219 million since December 31, 2010.

Total return, net of investment expenses, on average Group investments was 5.4 percent, the same as in 2010. Debt securities, which are invested to match the Group's insurance liability profiles, returned a positive 5.7 percent, equity securities returned a negative 1.3 percent and other investments, mainly real estate and mortgages, returned a positive 7.0 percent.

Performance of unit-linked investments

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

[1] After deducting investment expenses of USD 610 million and USD 532 million for the years ended December 31, 2011 and 2010, respectively.

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

Operating and financial review *continued*

Insurance and investment contract liabilities

Reserves for losses and loss adjustment expenses

The majority of the Group's reserves for losses and loss adjustment expenses are attributable to General Insurance. The remaining reserves mostly relate to Farmers Re and Non-Core Businesses.

in USD millions	Total Group		of which General Insurance	
	2011	2010	**2011**	2010
As of January 1				
Gross reserves for losses and loss adjustment expenses	68,107	68,126	63,864	63,517
Reinsurers' share	(12,093)	(12,182)	(11,192)	(10,963)
Net reserves for losses and loss adjustment expenses	**56,014**	**55,944**	**52,672**	**52,554**
Net losses and loss adjustment expenses incurred	22,439	23,620	20,894	19,773
Current year	23,742	24,999	22,115	21,097
Prior years	(1,302)	(1,378)	(1,221)	(1,324)
Total net losses and loss adjustment expenses paid	(22,909)	(23,240)	(20,301)	(19,408)
Current year	(9,817)	(10,524)	(8,241)	(7,816)
Prior years	(13,092)	(12,716)	(12,059)	(11,592)
Acquisitions/(divestments)	149	(12)	144	6
Foreign currency translation effects	(568)	(298)	(510)	(253)
As of December 31				
Net reserves for losses and loss adjustment expenses	**55,124**	**56,014**	**52,899**	**52,672**
Reinsurers' share	(12,401)	(12,093)	(11,175)	(11,192)
Gross reserves for losses and loss adjustment expenses	67,525	68,107	64,074	63,864

As of December 31, 2011, the Group **net reserves for losses and loss adjustment expenses** decreased by USD 0.9 billion since December 31, 2010, to USD 55.1 billion. This decrease was mostly driven by a USD 1.3 billion favorable development in the reserves as of December 31, 2010 and the implementation of a reinsurance contract related to the run-off insurance business of Zurich Specialties London Limited in anticipation of a portfolio transfer to be executed when regulatory approval is received. Further details of reserve developments are shown in note 8 of the audited Consolidated financial statements.

Development of cumulative net loss ratio

	2002	2003	2004	2005	2006	2007	2008	2009	2010	**2011**
In the year	70.6%	67.1%	68.3%	73.3%	69.6%	72.7%	74.6%	72.3%	73.5%	74.1%
One year later	72.0%	66.1%	64.2%	68.1%	66.2%	71.7%	74.1%	72.0%	73.2%	
Two years later	72.3%	65.4%	63.5%	66.6%	64.8%	70.6%	72.4%	70.7%		
Three years later	74.5%	65.5%	63.7%	65.0%	63.3%	69.4%	72.3%			
Four years later	74.7%	65.7%	62.9%	63.8%	62.6%	68.6%				
Five years later	73.4%	65.0%	62.2%	63.2%	61.6%					
Six years later	74.3%	64.6%	62.1%	62.6%						
Seven years later	74.1%	64.4%	61.9%							
Eight years later	74.1%	64.5%								
Nine years later	74.2%									

This table represents the loss ratio development for individual accident years for the Group, with General Insurance being the primary driver. Individual accident years are affected by the level of large catastrophe losses which had the following impact on the loss ratios. The 2004 hurricanes (Charley, Frances, Jeanne and Ivan) which struck Florida impacted the loss ratio by 2.8 percentage points; in 2005, hurricanes (Katrina, Rita and Wilma) and floods impacted the loss ratio by 4.6 percentage points; the winter storm Kyrill and the floods in the UK in 2007 impacted the loss ratio by 2.5 percentage points; in 2008, the impact of Hurricane Gustav and Hurricane Ike was 1.8 percentage points; in 2010 the impact of the earthquake in Chile and the floods in Australia was 0.8 percentage points; in 2011, the impact of the floods in Australia, earthquakes in New Zealand, the earthquake and subsequent tsunami in Japan, Hurricane Irene in the U.S. and the floods in Thailand was 3.2 percentage points, before the Group's aggregate catastrophe reinsurance recovery. The development of 2003 and subsequent years demonstrates the Group's philosophy of taking a prudent initial view on reserving with the expectation of favorable development over time.

Operating and financial review *continued*

Reserves for life insurance contracts and liabilities for investment contracts

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

Group reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts

in USD millions	Global Life		Other segments		Total Group	
	2011	2010	**2011**	2010	**2011**	2010
Net reserves as of January 1	187,196	180,145	17,331	17,655	204,527	197,800
Movements in net reserves	(2,597)	7,051	696	(324)	(1,901)	6,727
Net reserves as of December 31	**184,599**	**187,196**	**18,027**	**17,331**	**202,626**	**204,527**

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

Global Life – development of reserves and liabilities

in USD millions	Unit-linked insurance and investment contracts[1]		Other life insurance liabilities[2]		Total reserves and liabilities	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1						
Gross reserves	100,891	92,841	88,299	89,452	189,189	182,293
Reinsurers' share	–	–	(1,993)	(2,148)	(1,993)	(2,148)
Net reserves	**100,891**	**92,841**	**86,306**	**87,304**	**187,196**	**180,145**
Premiums	17,087	16,224	9,187	10,445	26,273	26,669
Claims	(13,732)	(11,629)	(10,604)	(10,556)	(24,336)	(22,186)
Fee income and other expenses	(1,866)	(1,875)	(2,277)	(1,995)	(4,143)	(3,870)
Interest and bonuses credited to policyholders	(3,105)	9,911	3,176	3,418	71	13,329
Change in assumptions	–	–	79	51	79	51
(Divestments)/acquisitions and transfers	378	(1,035)	1,605	(552)	1,983[3]	(1,587)
(Decreases)/increases recorded in other comprehensive income	(6)	(35)	730	(193)	724	(228)
Foreign currency translation effects	(1,340)	(3,512)	(1,909)	(1,616)	(3,249)	(5,127)
As of December 31						
Net reserves	**98,307**	**100,891**	**86,292**	**86,306**	**184,599**	**187,196**
Reinsurers' share	–	–	(2,065)	(1,993)	(2,065)	(1,993)
Gross reserves	98,307	100,891	88,357	88,299	186,665	189,189

[1] Includes reserves for unit-linked contracts, the net amounts of which were USD 47.6 billion and USD 50 billion, and liabilities for investment contracts, the net amounts of which were USD 50.7 billion and USD 50.9 billion as of December 31, 2011 and 2010, respectively
[2] Includes reserves for future life policyholders' benefits, the net amounts of which were USD 72.1 billion and USD 72.9 billion and policyholders' contract deposits and other funds, the net amounts of which were USD 14.2 billion and USD 13.4 billion as of December 31, 2011 and 2010, respectively
[3] The 2011 movement of USD 1'983 million mainly related to the acquisition of MAA (USD 1'852 million).

Total reserves and liabilities for insurance and investment contracts, net of reinsurance, decreased by USD 2.6 billion or by 1 percent in U.S. dollar terms, and remained flat on a local currency basis compared with December 31, 2010. This was mainly a consequence of the weakening of financial markets which decreased unit-linked fund values offset by an increase related to the acquisition of MAA in Malaysia.

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

in USD millions, as of	Unit-linked insurance and investment contracts		Other life insurance liabilities		Total reserves and liabilities	
	12/31/11	12/31/10	**12/31/11**	12/31/10	**12/31/11**	12/31/10
North America	913	845	5,214	5,107	6,126	5,952
Latin America	475	505	2,037	2,042	2,512	2,547
Europe	84,797	87,287	75,763	77,507	160,560	164,794
of which:						
United Kingdom	*52,460*	*54,757*	*5,056*	*4,792*	*57,516*	*59,549*
Germany	*9,859*	*10,666*	*40,004*	*41,347*	*49,863*	*52,013*
Switzerland	*671*	*650*	*18,672*	*18,688*	*19,343*	*19,339*
Ireland	*10,792*	*10,430*	*1,519*	*1,318*	*12,310*	*11,748*
Spain	*5,476*	*5,352*	*6,007*	*6,783*	*11,482*	*12,134*
Rest of Europe	*5,539*	*5,432*	*4,505*	*4,579*	*10,045*	*10,011*
Asia-Pacific and Middle East	10,265	10,701	3,005	1,378	13,269	12,080
Other	1,858	1,552	273	267	2,131	1,819
Eliminations	–	–	2	4	2	4
Total	**98,307**	**100,891**	**86,292**	**86,306**	**184,599**	**187,196**

Unit-linked insurance and investment contracts, net of reinsurance, decreased by USD 2.6 billion compared with December 31, 2010, or by 3 percent in U.S. dollar terms and 1 percent on a local currency basis. This is largely the result of the effect on fund values from weakening financial markets.

Other life insurance liabilities, net of reinsurance, remained constant with December 31 2010, in U.S. dollar terms and increased 2 percent on local currency basis as a result of the acquisition of MAA in Malaysia.

Operating and financial review *continued*

Indebtedness

in USD millions, as of	Collateralized loans		Senior debt		Subordinated debt		Total	
	12/31/11	12/31/10	**12/31/11**	12/31/10	**12/31/11**	12/31/10	**12/31/11**	12/31/10
Operational debt[1]	223	743	864[2]	865[2]	–	–	1,086	1,609
Financial debt			5,678[3]	5,588[3]	5,476	5,004	11,153	10,592
Total	**223**	**743**	**6,541**	**6,453**	**5,476**	**5,004**	**12,240**	**12,200**

[1] Moody's issued a new guideline on operational debt in May 2011 and confirmed to the Group in August 2011 that they will exclude the Group's repurchase agreement obligations from their total leverage calculation. As a consequence amounts relating to repurchase agreement obligations have now been excluded from operational debt and therefore are not shown in the table. Repurchase agreement obligations were USD 1.8 billion and USD 3.3 billion as of December 31, 2011 and December 31, 2010 respectively. Standard & Poor's had already previously excluded these obligations from operational debt.
[2] Operational senior debt includes USD 750 million in senior debt issued under the EMTN Programme by Zurich Finance (Luxembourg) S.A. in September 2009, which was loaned directly to the Group's banking activities. This issue has been recognized as operational debt by Moody's but not by Standard & Poor's. In addition, operational senior debt includes an adjustment of USD 100 million for non-recourse debt.
[3] Financial senior debt contains USD 400 million that was previously presented in a separate column, "Capital markets."

Total operational and financial debt, as revised for the exclusion of repurchase agreement obligations, increased by USD 39 million to USD 12.2 billion or by 0.3 percent.

Operational debt, as revised for the exclusion of repurchase agreement obligations, decreased by USD 522 million to USD 1.1 billion since December 31, 2010, or by 32 percent due to the repayment of USD 521 million of collateralized loans.

Financial debt increased by USD 561 million to USD 11.2 billion, or by 5 percent in U.S. dollar terms and 6 percent on a local currency basis. A new subordinated loan note of CHF 500 million issued under the Euro Medium Term Note Programme (EMTN Programme) in March 2011 refinanced the early redemption of hybrid debt which was classified as preferred securities in shareholders' equity as of December 31, 2010. Other changes in the Group's financing consisted of the repayment in July 2011 of commercial paper of USD 400 million refinanced by the issuance of USD 400 million under the Group's new European Commercial Paper Programme in October and December 2011, the repayment on maturity of CHF 1.0 billion and CHF 300 million senior bonds, refinanced by the issuance of three senior notes totaling CHF 1.3 billion under the EMTN Programme.

In March 2011, Moody's Investor Service upgraded Zurich Insurance Company Ltd's financial strength rating by one notch to Aa3 from A1. Debt ratings were also upgraded by one notch, resulting in its senior debt ratings moving to A1, subordinated to A2(hyb) and preferred to A3(hyb).

Details of debt issuances are set out in note 21 of the audited Consolidated financial statements.

Capitalization

in USD millions	Shareholders' equity	Non-controlling interests	Total equity
As of December 31, 2010, as previously reported	31,984	1,337	33,321
Adjustment arising from the change in accounting policy[1]	(79)	(1)	(80)
As of December 31, 2010, as restated	**31,905**	**1,336**	**33,241**
Proceeds from issuance of share capital	211	–	211
Proceeds from treasury share transactions	7	–	7
Dividends	(1,916)	(22)	(1,938)
Redemption of preferred securities	(476)	–	(476)
Share-based payment transactions	22	–	22
Total comprehensive income	1,883	(74)	1,809
Net income after taxes	3,766	25	3,792
Net other recognized income and expenses	(1,883)	(100)	(1,983)
Net changes in capitalization and non-controlling interests	–	1,141	1,141
As of December 31, 2011	**31,636**	**2,380**	**34,017**

[1] See note 1 of the audited Consolidated financial statements.

Total equity increased by USD 776 million to USD 34.0 billion, or by 2 percent. This growth in total equity was after the deduction of USD 2.7 billion for the dividend of CHF 17.00 per share, which was approved at the Annual General Meeting on March 31, 2011, and which was paid from the newly created capital contribution reserve. Of the USD 2.7 billion, USD 1.9 billion has been shown as a dividend and USD 795 million has been included in the cumulative foreign currency translation adjustments. The early redemption of preferred securities decreased equity by USD 476 million and was funded mainly by the issuance of the subordinated loan note of CHF 500 million under the EMTN Programme in March 2011. Net income after tax of USD 3.8 billion fully offset the dividend and capital redemption. Net other recognized expenses of USD 1.9 billion included cumulative foreign currency translation adjustments of USD 1.5 billion reflecting changes in exchange rates during the year, as well as net actuarial losses on pension plans of USD 933 million offset by net unrealized gains on investments and cash flow hedges. The increase of USD 1.1 billion in non-controlling interests arose mainly from the 49.0 percent retention by Santander of its former insurance entities in Latin America.

The Swiss Solvency Test (SST) has become fully effective and mandatory as of January 1, 2011. Under the SST, the Group is required to use a company-specific internal model to calculate risk-bearing and target capital. The Group is required to file the SST biannually. For June 30, 2011, the Group filed on a consolidated basis an SST capitalization ratio of 225 percent compared with 223 percent as of December 31, 2010. The ratio is subject to the Swiss Financial Market Supervisory Authority (FINMA) review, as well as its approval of the Group's internal model.

The Group also continues to be subject to Solvency I requirements based on the Swiss Insurance Supervisory Law. The Solvency I ratio as of December 31, 2011, increased to 242 percent from 232 percent as of December 31, 2010.

Operating and financial review *continued*

Cash flows

Summary of cash flows

in USD millions, for the years ended December 31	2011	2010
Net cash provided by/(used in) operating activities	3,888	1,543
Net cash used in investing activities	(1,176)	(135)
Net cash provided by/(used in) financing activities	(2,439)	(2,049)
Foreign currency translation effects on cash and cash equivalents	48	(383)
Change in cash and cash equivalents excluding change in cash received as collateral for securities lending	322	(1,023)
Cash and cash equivalents as of January 1[1]	9,726	10,749
Cash and cash equivalents as of December 31[1]	10,048	9,726
Change in cash received as collateral for securities lending	–	(493)
Cash and cash equivalents as of January 1[2]	9,726	11,242
Cash and cash equivalents as of December 31[2]	**10,048**	**9,726**

[1] Excluding cash received as collateral for securities lending
[2] Including cash received as collateral for securities lending

Net cash provided by operating activities, which included cash movements in and out of, as well as within total investments, was USD 3.9 billion for the year ended December 31, 2011. Net cash used in investing activities of USD 1.2 billion was primarily related to the acquisition of a 51.0 percent participation in a holding company, which owned some and has since acquired other insurance operations of Santander in Latin America and the acquisition of MAA in Malaysia. Net cash outflows from financing activities of USD 2.4 billion were primarily related to the USD 2.8 billion payment of dividends and the early redemption of preferred securities amounting to USD 476 million, partially offset by the net issuance of senior and subordinated debt of USD 782 million.

Currency translation impact

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

As the Group has chosen the U.S. dollar as its presentation currency, differences arise when functional currencies are translated into the Group's presentation currency. The table below shows the effect of foreign currency rates on the translation of selected line items.

Selected Group income statement line items

variance over the prior period, for the year ended December 31, 2011	in USD millions	in %
Gross written premiums and policy fees	2,074	4%
Insurance benefits and losses, gross of reinsurance	(1,807)	(5%)
Net income attributable to shareholders	78	2%
Business operating profit	81	2%

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

Selected Group balance sheet line items

variance over December 31, 2010, as of December 31, 2011	in USD millions	in %
Total investments	(4,151)	(1%)
Reserves for insurance contracts, gross	(3,558)	(1%)
Cumulative translation adjustment in shareholders' equity	(1,512)	(5%)

The balance sheets are translated at end-of-period rates. The U.S. dollar has strengthened against the euro, but remained relatively stable against the British pound and Swiss franc as of December 31, 2011, compared with December 31, 2010, resulting in a decrease, in U.S. dollar terms, in most balance sheet items. The decrease in the cumulative translation adjustment in shareholders' equity includes USD 795 million relating to the dividend and underlying currency translation losses of USD 717 million.

Risk review

Zurich's approach to risk management aims to protect the Group's capital, enhance value creation, optimize our risk-return profile, support decision making and protect Zurich's reputation and brand. The Risk review describes the Group's risk management framework and risk governance, presents an analysis of its main risks, and reports on capital management and capital adequacy.

Risk management

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The Risk review is an integral part of the Consolidated financial statements (except for the "Swiss Solvency Test Requirement" and "Internal Model Capital Adequacy" sections presented on pages 145–149).

Risk review *continued*

Risk Management

Mission and objectives of risk management

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

The Group's major risk management objectives are to:

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

Risk management framework

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

Risk management framework

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

To support the governance process, the Group relies on documented policies and guidelines. The Zurich Risk Policy is the Group's main risk governance document; it specifies the Group's risk tolerance, risk limits and authorities, reporting requirements, procedures to approve any exceptions and procedures for referring risk issues to senior management and the Board of Directors. Limits are specified per risk type, reflecting the Group's willingness and ability to take risk, considering earnings stability, economic capital adequacy, financial flexibility and liquidity, franchise value and reputation, the Group's strategic direction and operational plan, and a reasonable balance between risk and return, aligned with economic and financial objectives. The Group regularly enhances the Zurich Risk Policy to reflect new insights and changes in the Group's environment and to reflect changes to the Group's risk tolerance. In 2011, the Zurich Risk Policy was updated and strengthened for various areas, including enterprise risk management, credit risk and asset/liability management. Related procedures and risk controls were strengthened or clarified for these areas. In 2011, Zurich focused on strengthening processes to assess adherence to requirements in the Zurich Risk Policy.

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

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

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

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

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

Through these processes, responsibilities and policies, Zurich embeds a culture of disciplined risk taking across the Group. The Group continues to consciously take risks for which it expects an adequate return. This approach requires sound judgment and an acceptance that certain risks can and will materialize in the future.

External perspectives

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

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

Rating agencies are interested in risk management as a factor in evaluating companies. Standard & Poor's, a rating agency with a separate rating for Enterprise Risk Management, has rated Zurich's overall Enterprise Risk Management as "strong." Reinsurance risk, credit risk and market risk controls remain "excellent." Asset and liability management, reserving risk, catastrophe risk and operational risk controls, as well as strategic and emerging risk management, are seen as "strong." Zurich is rated either "excellent" or "strong" in all of Standard & Poor's dimensions for Enterprise Risk Management.

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

The Group is also involved in a number of international industry organizations engaged in advancing the regulatory dialogue pertaining to insurance and financial services. For example, in 2011, Zurich senior executives contributed to the drafting of key papers issued by the CRO Forum (an organization composed of the chief risk officers of major insurance companies and financial conglomerates that focuses on developing and promoting industry best practices in risk management). In 2011, Zurich's Chief Risk Officer served as chair of the CRO Forum. In addition, Zurich's Chief Financial Officer served until October 2011 as chair of the CFO Forum (an organization composed of the chief financial officers of major European insurance companies and financial conglomerates particularly active in contributing to the

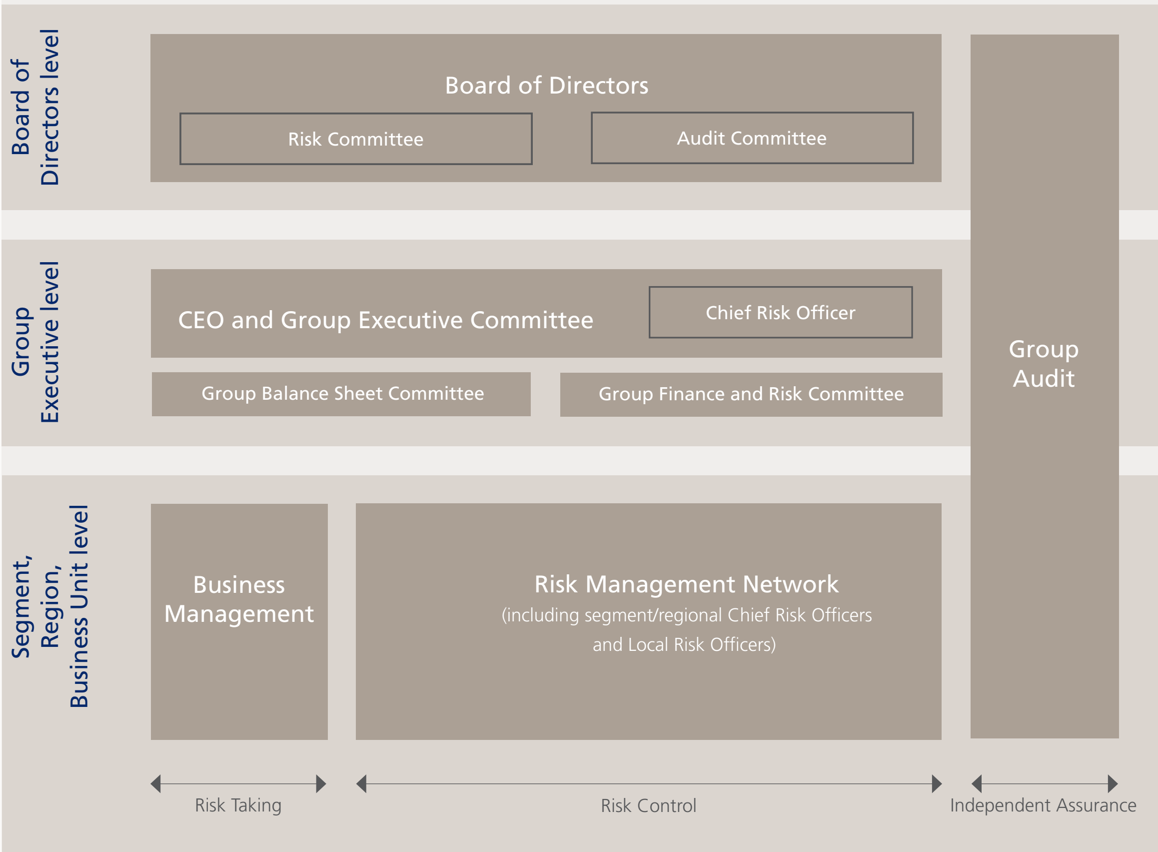
Risk review *continued*

development of new accounting and regulatory standards, as well as establishing the principles for Embedded Value reporting). Zurich is also a contributing partner to the annual report on global risks, a collaborative effort under the auspices of the World Economic Forum (WEF) and produced in conjunction with the WEF Risk Response Network.

Risk governance and risk management organization

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

Risk governance overview



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

Board of Directors level

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

The Risk Committee of the Board serves as a focal point for oversight regarding the Group's risk management, in particular the Group's risk tolerance, including agreed limits that the Board regards as acceptable for Zurich to bear, the aggregation of these limits across the Group, the measurement of adherence to risk limits, and the Group's risk tolerance in relation to anticipated capital levels. The Risk Committee further oversees the Group-wide risk governance framework, including risk management and control, risk policies and their implementation, as well as risk strategy and the monitoring of operational risks. The Risk Committee also reviews the methodologies for risk measurement and the Group's adherence to risk limits. The Risk Committee further reviews, with business management and the Group

Risk Management function, the Group's general policies and procedures and satisfies itself that effective systems of risk management are established and maintained. It receives periodic reports from Group Risk Management and assesses whether significant issues of a risk management and control nature are being appropriately addressed by management in a timely manner. The Risk Committee assesses the independence and objectivity of the Group Risk Management function, approves its terms of reference, reviews the activities, plans, organization and quality of the function, and reviews key risk management principles and procedures.

To facilitate information exchange between the Audit Committee of the Board and the Risk Committee of the Board, the chairperson of the Audit Committee is a member of the Risk Committee and vice-versa. The Risk Committee met seven times in 2011 (once jointly with the Remuneration Committee).

Group Executive level

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

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

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

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

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

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

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

Group Risk Management organization

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

Risk review *continued*

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

At Group level there are two centers of expertise: risk analytics and risk and control. The risk analytics department quantitatively assesses insurance, financial market and asset/liability, credit and operational risks and is the Group's center of excellence for risk quantification and modeling. The risk and control department includes operational risk management, internal control framework, risk reporting, risk governance, and risk operations. The risk management network consists of the Chief Risk Officers (CROs) of the Group's segments and regions, and the Local Risk Officers (LROs) of the business units and functions and their staff. While their primary focus is on operational and business-related risks, they are responsible for providing a holistic view of risk for their area. The risk officers are part of the management teams in their respective businesses and therefore are embedded in the business. The LROs also report to the segment or regional CROs, who in turn report to the Group's Chief Risk Officer. The CROs of the Group's segments and regions are members of the executive leadership team of the Group's Chief Risk Officer.

In addition to the risk management network, the Group has audit and oversight committees at the major business and regional levels. The committees are responsible for providing oversight of the risk management and control functions. This includes monitoring adherence to policies and periodic risk reporting. In 2011, the Group revised its subsidiary governance to make local risk and control committees optional. However, senior executives at the local level are required to meet at least quarterly with the local heads of governance functions to agree on the significant risks, control and compliance exposures and to decide on necessary actions.

Analysis by Risk Type

Risk type description

In order to enable a consistent, systematic and disciplined approach to risk management, Zurich categorizes its main risks as follows:

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

Strategic risk

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

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

Risk considerations are a key element in the strategic decision-making process. The Group assesses the implications of strategic decisions on risk-based return measures and risk-based capital in order to optimize the risk-return profile and to take advantage of economically profitable growth opportunities as they arise.

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

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

Risk review *continued*

Insurance risk

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. The exposure is transferred to Zurich through the underwriting process. Zurich actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. As Zurich assumes certain customer risks, it aims to manage that transfer of risk, and minimize unintended underwriting risks, through such means as:

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

General insurance risk

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

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

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

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

The Group faces the risk that actual losses emerging on claims provisions may be higher than anticipated. Because of this uncertainty, general insurance reserves are regularly measured, reviewed and monitored. The total loss and loss adjustment expense reserves are calculated based on work performed locally by qualified and experienced actuaries. To arrive at their reserve estimates, the actuaries take into consideration, among other things, the latest available facts, historical trends and patterns of loss payments, exposure growth, court decisions, economic conditions, in particular inflation, and public attitudes that may affect the ultimate cost of settlement. Inflation is monitored on a country basis; the monitoring process relies on both Zurich's economic view on inflation and specific claims activity, and feeds into actuarial models and Zurich's underwriting processes such as technical price reviews.

In most instances these actuarial analyses are made throughout the year according to locally developed and agreed timetables. Analyses are performed by product line, type and extent of coverage and year of occurrence. The Group total loss and loss adjustment expense reserves are the consolidation of the locally calculated reserves which are then discussed and approved by Corporate Center actuaries and Group management. As with any projection there is an inherent uncertainty in the estimation of claim reserves due to the fact that the ultimate liability for claims will be impacted by trends as yet unknown including future changes in the likelihood of claimants bringing suit, the size of court awards, and the attitudes of claimants toward settlement of their claims.

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

In addition to the specific risks insured, each line of business could expose the Group to losses that could arise from natural and man-made catastrophes. The main concentrations of risks arising from such potential catastrophes are regularly reported to senior management. The most important peril regions and risks are United States and Caribbean tropical cyclone, Europe windstorm and California earthquake, as well as potential terrorism exposures.

The table below shows the Group's concentration of risk within the General Insurance business by region and line of business based on direct written premiums before reinsurance. The Group's exposure to general insurance risks varies significantly by geographic region and may change over time. General insurance premiums ceded to reinsurers (including retrocessions) amounted to USD 5.3 billion and USD 5.1 billion for the years ended December 31, 2011 and 2010, respectively. Reinsurance programs such as catastrophe covers are managed on a global basis, and therefore, net premium after reinsurance is monitored on an aggregated basis.

Table 1.a

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

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

[1] Including intercompany eliminations

Table 1.b

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

in USD millions, for the year ended December 31, 2010	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,400	2,645	3,462	1,489	2,118	11,114
Europe	6,081	4,752	2,277	2,067	442	15,619
Other regions[1]	1,566	1,472	352	672	110	4,173
Total	**9,046**	**8,870**	**6,092**	**4,228**	**2,670**	**30,906**

[1] Including intercompany eliminations

Risk review *continued*

Sensitivities analysis for general insurance risk

The following table shows the sensitivity of net income before tax and the sensitivity of net assets, using the Group effective income tax rate, as a result of adverse development in the net loss ratio by one percentage point. Such an increase could arise from either higher frequency of the occurrence of the insured events or from an increase in the severity of resulting claims or from a combination of frequency and severity. The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the presentation of the sensitivity analysis in the table below, each additional percentage point increase in the loss ratio would lead to a linear impact on net income before tax and net assets. In addition, the Group monitors insurance risk by evaluating extreme scenarios, taking into account non-linear effects of reinsurance contracts.

Insurance risk sensitivity for the General Insurance business – current period

Table 2.a

in USD millions, for the year ended December 31, 2011	Global Corporate	North America Commercial	Europe	International Markets
+1% in net loss ratio				
Net income before tax	(54)	(76)	(126)	(34)
Net assets	(41)	(58)	(96)	(26)

Insurance risk sensitivity for the General Insurance business – prior period

Table 2.b

in USD millions, for the year ended December 31, 2010	Global Corporate	North America Commercial	Europe	International Markets
+1% in net loss ratio				
Net income before tax	(49)	(76)	(124)	(29)
Net assets	(39)	(60)	(99)	(23)

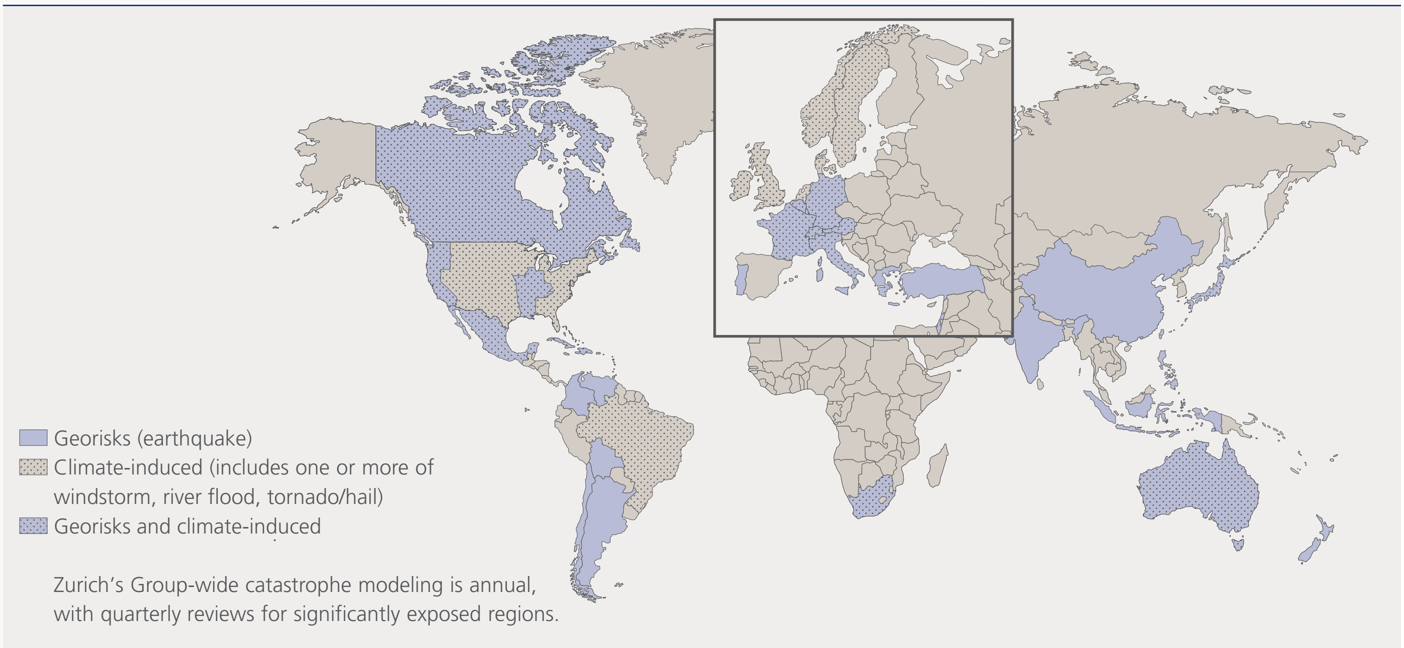
Modeling natural catastrophes

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

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

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

Peril regions assessed for 2011



Zurich's Group-wide catastrophe modeling is annual, with quarterly reviews for significantly exposed regions.

Risk review *continued*

Risks from man-made catastrophes

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

The Group reviews and aggregates worker injury and property exposures to identify areas of significant concentration. The Group also assesses other lines of business, such as liability and auto, although the potential exposure is not as significant. The resulting data allows underwriters to evaluate how insuring a particular customer's risk might affect Zurich's overall exposure. In North America, Zurich uses a vendor-provided catastrophe model to evaluate potential exposures in every major U.S. city. The Group undertakes more detailed and frequent analytics for cities in which Zurich has greater exposure. In 2011, Zurich continued to use a multi-disciplinary team to examine the vendor tool and make adjustments based on its own experience, expertise and view of the potential risks.

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

Life insurance risk

The risks associated with life insurance include:

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

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

The Group has local product development committees and a Group-level product approval committee, under the leadership of the Global Life Chief Risk Officer, for potential new life products that could significantly increase or change the nature of its risks. Such reviews allow Zurich to manage new risks inherent in its new business propositions. The Group regularly reviews the continued suitability and the potential risks of existing products.

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

From a risk-management perspective, unit-linked products have been designed in order to reduce much of the market and credit risk associated with traditional business for the Group. Those risks inherent in these products are largely passed on to the policyholder, although a portion of the Group's management fees are linked to the value of funds under management and hence are at risk if the fund values decrease. Unit-linked products carry mortality risk and market risk to the extent that there are guarantees built into the product design. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are mitigated by explicit mortality and morbidity charges.

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

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

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

Certain life insurance contracts contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees. These arise primarily in the subsidiary Zurich American Life Insurance Company (ZALICO) (formerly known as KILICO) which in the past wrote variable annuity contracts that provide policyholders with certain guarantees related to minimum death and income benefits. After 2001, ZALICO no longer issued new policies with such features. Since 2011, the Group has implemented a dynamic hedging strategy to manage its economic exposure and reduce the volatility associated with its closed book of variable annuities products within its U.S. life business. New Life products developed with financial guarantees are subject to review and approval by the Group-level product approval committee.

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

Zurich is exposed to two main types of concentration risk in its Global Life business:

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

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

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

Sensitivities analysis for life insurance risk

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

Risk review *continued*

Reserves, net of reinsurance, by region

Table 3

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

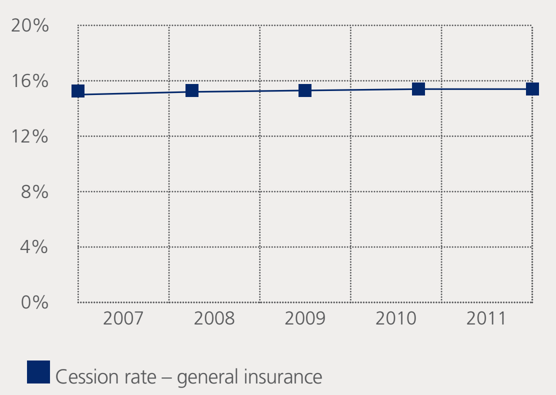
[1] See note 29 of the Consolidated financial statements for additional information on the Group's segments.

Reinsurance for general insurance and life insurance

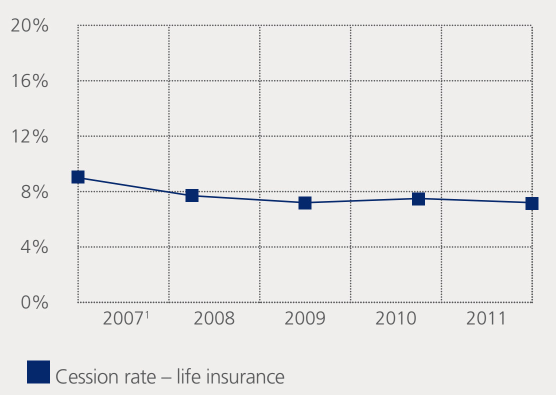
The Group's objectives for purchasing reinsurance are to provide market-leading capacity for customers while protecting the balance sheet and optimizing the Group's capital efficiency. The Group follows a centralized purchasing strategy for both its segments, General Insurance and Global Life, and bundles programs where appropriate to benefit from diversification and economies of scale. These efforts for General Insurance have led to a decreasing expenditure for treaty reinsurance while growth in the General Insurance Global Corporate segment has increased premium cessions to captives and co-reinsurers, resulting in an overall stable cession rate.

Due to its strong balance sheet, Zurich is able to structure and align its reinsurance programs to achieve an optimum risk/reward ratio. Zurich has managed its central reinsurance purchasing according to these principles for General Insurance since 2003 and for Global Life since 2008. The Group is therefore able to manage its risks to retain a significant and stable portion of premium, as shown in the illustrations below.

Ceded premium – trend
(% of general insurance gross written premium ceded to reinsurers)



Ceded premium – trend
(% of life insurance gross written premium ceded to reinsurers)



[1] Life insurance gross written premium ceded to reinsurers for 2007 reflects the one-off transaction "Windsor Life" (as stated in the 2007 Annual Report).

The Group continues to use traditional reinsurance markets and other alternatives, such as catastrophe bonds, to protect against extreme single events and increased frequency of events. The Group is able to use its global reach in particular for catastrophe protection, where it has in place a combination of per event and annual aggregate covers, which protects the Group's business both per event and by region, and also for multiple events across regions. This helps to reduce the risks posed by the frequency of catastrophes, as well as their severity.

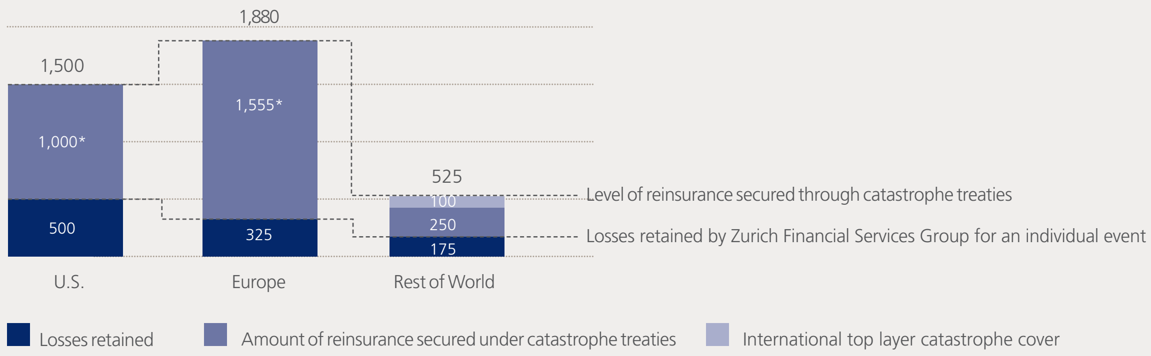
The Group uses reinsurance to manage risk to unusually severe or unusually frequent events, as illustrated in the following page, through the main in-force reinsurance covers as of December 31, 2011 for natural catastrophe events. The Group participates in the underlying risks through its retention and through its participation in the excess layers. The contracts are on a risk-occurrence basis except the aggregate catastrophe cover which operates on an annual aggregate basis. In addition to these covers, the Group has per risk programs, local catastrophe covers, bilateral risk swaps and catastrophe bonds in place. These covers are reviewed continuously and are subject to change going forward.

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

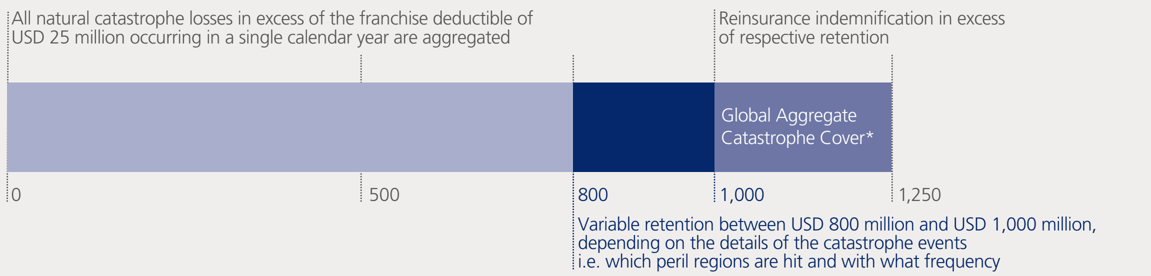
Risk review *continued*

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

Notes:
- Structures are in place (via reinstatements) to cover 2 significant individual events per region.
- USD 1,000 million reinsurance protection for U.S. includes a bilateral risk swap of USD 100 million.



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



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

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

Market risk

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

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

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

The Group has policies and limits to manage market risk. The Group aligns its strategic asset allocation to its risk-taking capacity. The Group centralizes management of certain asset classes to control aggregation of risk, and provides a consistent approach to constructing portfolios and selecting external asset managers. The Group also diversifies portfolios, investments and asset managers. The Group regularly measures and manages market risk exposure. The Group has established limits on concentration in investments by single issuers and certain asset classes as well as deviations of asset interest rate sensitivities from liability interest rate sensitivities, and the Group limits investments that are illiquid.

The Group Balance Sheet Committee reviews and recommends the Group's capital allocation to market risk, while the Asset/Liability Management and Investment Committee reviews and monitors the Group's strategic asset allocation and tactical boundaries and monitors the Group's asset/liability exposure. The Group oversees the activities of local Asset/Liability Management and Investment Committees and regularly assesses market risks both at a Group and at a local business level. Risk assessment includes quantification of the contributions to financial market risk from major risk drivers. The economic effect of potential extreme market moves is regularly examined and considered when setting the asset allocation.

Risk assessment reviews include the analysis of the management of interest rate risk for each major maturity bucket and adherence to the aggregated positions with risk limits.

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

The Group uses derivative financial instruments to limit market risks arising from changes in currency exchange rates, interest rates, equity prices and credit quality of assets and liabilities and commitments to third parties. The Group enters into derivative financial instruments mostly for economic hedging purposes and, in limited circumstances, the instruments may also meet the definition of an effective hedge for accounting purposes. The latter include cross-currency interest rate swaps in fair value hedges and cross-currency swaps in cash flow hedges of Zurich's borrowings, in order to mitigate exposure to foreign currency and interest rate risk. In compliance with Swiss insurance regulation, the Group's policy prohibits speculative trading in derivatives, meaning a pattern of "in and out" activity without reference to an underlying position. Derivatives are complex financial transactions; therefore, the Group addresses the risks arising from derivatives through a stringent policy that requires approval of a derivative program before transactions are initiated, and by subsequent regular monitoring by Group Risk Management of open positions and annual reviews of derivative programs.

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

Risk from equity securities and real estate

The Group is exposed to various risks resulting from price fluctuations on equity securities, real estate and capital markets. Risks arising from equity securities and real estate could affect the Group's liquidity, reported income, surplus and regulatory capital position. The exposure to equity risk includes common stocks, including equity unit trusts; common stock portfolios backing participating with-profit policyholder contracts, and equities held for employee benefit plans. The exposure to real estate risk includes direct holdings in real estate, listed real estate company shares and funds, as well as real estate debt securities such as commercial and residential mortgages, commercial and

Risk review *continued*

residential mortgage-backed securities and mezzanine debt. Returns on unit-linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and real estate, but these risks are borne by policyholders. However, the Group is indirectly exposed to market movements from unit-linked contracts both with respect to earnings and with respect to economic capital. Market movements impact the amount of fee income earned when the fee income level is dependent on the valuation of the asset base. Also, the value of in-force business for unit-linked business can be negatively impacted by adverse movements in equity and real estate markets.

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

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

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

Interest rate and credit spread risk

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

Returns on unit-linked contracts, whether classified as insurance or investment contracts, are at the risk of the policyholder; however, the Group is exposed to fluctuations in interest rates in so far as they impact the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

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

Analysis of market risk sensitivities

Basis of presentation – General Insurance and rest of the businesses

The basis of the presentation below is an economic valuation represented by the fair value for Group investments, IFRS insurance liabilities discounted at risk-free market rates (the Group describes risk-free market rates as swap rates) to reflect the present value of insurance liability cash flows and other liabilities, for example own debt. Own debt does not include subordinated debt, which Zurich considers available to protect policyholders in a worst-case situation.

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

For determining the sensitivities, investments and liabilities are fully re-valued in the given scenarios. Each instrument is re-valued separately taking the relevant product features into account. Non-linear effects, where they exist, are fully reflected in the model. The sensitivities are shown after tax. They do not include the impact of Group-internal transactions.

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

Limitations of the analysis:

- The sensitivity analysis does not take into account actions that might be taken to mitigate losses, as Zurich uses an active strategy to manage these risks. This strategy may involve changing the asset allocation, for example through selling and buying assets.
- The sensitivities show the effects of a change of certain risk factors, while other assumptions remain unchanged.
- The interest rate scenarios assume a parallel shift of all interest rates in the respective currencies. They do not take into account the possibility that interest rate changes might differ by rating class, these are disclosed separately as credit spread risk sensitivities.
- The equity market scenarios assume a concurrent movement of all stock markets.
- The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent the Group's view of expected future market changes. In addition to the sensitivities, management uses stress scenarios to assess the impact of more severe market movements on the Group's financial condition.
- The sensitivity analysis is based on economic net assets, and not on IFRS equity or on IFRS profit and loss.
- The sensitivity analysis is calculated after tax; the Group effective tax rate is assumed to be 24.1 percent for 2011. For 2010, it is calculated at 20.3 percent. For the Non-Core Businesses with life insurance characteristics, specific tax rates have been applied.

Basis of presentation – Global Life

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

Limitations of the analysis:

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

For more information, see the "Embedded Value Report."

Analysis of economic sensitivities for interest rate risk

The tables on the following page show the estimated impacts of a 100 basis point increase/decrease in yield curves of the major currencies U.S. dollar (USD), euro (EUR), British pound (GBP), Swiss franc (CHF) and "other currencies" after consideration of hedges in place, as of December 31, 2011 and 2010, respectively.

Risk review *continued*

Table 4.a

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

in USD millions, as of December 31, 2011	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(1,082)	(469)	(302)	(318)	(160)	**(2,331)**
Liabilities	(1,141)	(361)	(348)	(352)	(100)	**(2,301)**
Net impact before tax	59	(108)	45	34	(61)	**(30)**
Tax impact	(14)	26	(11)	(8)	15	**7**
Net impact after tax	44	(82)	34	26	(46)	**(23)**
100 basis points decrease in the interest rate yield curves						
Group investments	877	449	266	195	149	**1,936**
Liabilities	999	337	339	297	99	**2,070**
Net impact before tax	(122)	112	(73)	(102)	51	**(134)**
Tax impact	29	(27)	18	25	(12)	**32**
Net impact after tax	(93)	85	(55)	(77)	39	**(102)**

Table 4.b

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

in USD millions, as of December 31, 2010	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(1,293)	(530)	(307)	(260)	(175)	**(2,564)**
Liabilities	(967)	(382)	(287)	(353)	(92)	**(2,082)**
Net impact before tax	(326)	(148)	(19)	93	(82)	**(482)**
Tax impact	66	30	4	(19)	17	**98**
Net impact after tax	(260)	(118)	(15)	74	(66)	**(384)**
100 basis points decrease in the interest rate yield curves						
Group investments	1,176	560	325	246	172	**2,479**
Liabilities	966	389	304	382	92	**2,133**
Net impact before tax	210	170	21	(136)	80	**346**
Tax impact	(43)	(35)	(4)	28	(16)	**(70)**
Net impact after tax	167	136	17	(109)	64	**275**

Table 5.a

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

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

Table 5.b

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

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

Table 6.a

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

in USD millions, as of December 31, 2011	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(731)	(116)	(28)	(5)	(1)	**(882)**
Liabilities	(588)	(5)	(9)	(3)	–	**(605)**
Net impact before tax	(143)	(111)	(20)	(2)	(1)	**(277)**
Tax impact	34	27	5	1	–	**67**
Net impact after tax	(109)	(84)	(15)	(2)	(1)	**(210)**
100 basis points decrease in the interest rate yield curves						
Group investments	896	106	22	6	1	**1,031**
Liabilities	759	6	8	2	–	**774**
Net impact before tax	137	100	14	5	1	**256**
Tax impact	(32)	(24)	(3)	(1)	–	**(61)**
Net impact after tax	105	76	11	4	1	**196**

Table 6.b

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

in USD millions, as of December 31, 2010	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(743)	(106)	(29)	(1)	(1)	**(880)**
Liabilities	(512)	(114)	(2)	(27)	–	**(656)**
Net impact before tax	(230)	8	(27)	27	(1)	**(224)**
Tax impact	31	(2)	4	(5)	–	**28**
Net impact after tax	(199)	6	(24)	21	(1)	**(196)**
100 basis points decrease in the interest rate yield curves						
Group investments	813	107	26	7	1	**954**
Liabilities	627	114	2	16	–	**759**
Net impact before tax	186	(7)	24	(9)	1	**196**
Tax impact	(46)	1	(3)	2	–	**(45)**
Net impact after tax	141	(5)	21	(7)	1	**150**

Risk review *continued*

Analysis of economic sensitivities for equity risk

The table below shows the estimated impacts from a 10 percent decline in stock markets, after consideration of hedges in place, as of December 31, 2011 and 2010, respectively.

Economic equity price sensitivities for the General Insurance business

Table 7

in USD millions, as of December 31	**2011**	2010
10% decline in stock markets		
Group investments	(473)	(435)
Liabilities	–	–
Net impact before tax	(473)	(435)
Tax impact	114	88
Net impact after tax	(359)	(347)

Economic equity price sensitivities for the Global Life business

Table 8

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

Economic equity price sensitivities for the rest of the businesses

Table 9

in USD millions, as of December 31	**2011**	2010
10% decline in stock markets		
Group investments	(117)	(324)
Liabilities	57	75
Net impact before tax	(174)	(399)
Tax impact	42	71
Net impact after tax	(132)	(329)

Analysis of economic sensitivities for credit spread risk

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

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

Table 10.a

in USD millions, as of December 31, 2011	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(964)	(334)	(172)	(143)	(132)	**(1,744)**
Tax impact	232	80	42	34	32	**420**
Net impact after tax	(732)	(253)	(131)	(108)	(100)	**(1,324)**

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

Table 10.b

in USD millions, as of December 31, 2010	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(1,162)	(370)	(192)	(102)	(101)	**(1,926)**
Tax impact	236	75	39	21	21	**391**
Net impact after tax	(926)	(295)	(153)	(81)	(81)	**(1,535)**

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

Table 11.a

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

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

Table 11.b

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

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

Table 12.a

in USD millions, as of December 31, 2011	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(521)	(17)	(11)	(3)	(1)	**(553)**
Tax impact	156	4	3	1	–	**164**
Net impact after tax	(364)	(13)	(8)	(2)	(1)	**(389)**

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

Table 12.b

in USD millions, as of December 31, 2010	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(826)	(12)	(62)	(1)	(1)	**(902)**
Tax impact	204	2	13	–	–	**220**
Net impact after tax	(622)	(10)	(49)	(1)	(1)	**(682)**

Risk review *continued*

Currency risk

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

On local balance sheets there is the risk that a currency mismatch may lead to fluctuations in a balance sheet's net asset value, either through income or directly through equity. The Group manages this risk by matching foreign currency positions on local balance sheets within prescribed limits. Residual local mismatches are reported centrally in order to make use of the netting effect across the Group. Zurich then hedges residual mismatches from local balance sheets through a central balance sheet within an established limit. The monetary currency risk exposure on local balance sheets is considered immaterial.

Because the Group has chosen the U.S. dollar as its presentation currency, differences arise when functional currencies are translated into the presentation currency. The Group does not hedge movements of the currency translation adjustment, or take speculative positions on foreign currency market movements. Using constant exchange rates from one year to the next, the Group's 2011 net income attributable to shareholders would have been lower by USD 77 million (applying 2010 exchange rates to the 2011 result). In 2010 the result would have been higher by USD 51 million (applying 2009 exchange rates to the 2010 results).

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

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

Table 13

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

in USD millions, as of December 31	**2011**	2010
10% increase in		
EUR/USD rate	1,049	907
GPB/USD rate	354	435
CHF/USD rate	(309)	(137)
Other currencies/USD rates	477	482

Credit risk

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

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

The Group manages individual exposures as well as credit risk concentrations. The Group's objective in managing credit risk exposures is to maintain them within parameters that reflect the Group's strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and the Group has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Group uses the ratings assigned by external rating agencies, qualified third parties, such as asset managers, and internal rating assessments. When there is a difference among external rating agencies, the Group assesses the reasons for the inconsistencies and applies the lowest of the respective ratings unless other indicators of declining credit quality justify the assignment of alternative internal credit ratings. The Group maintains counterparty credit risk databases, which record external and internal sources of credit intelligence.

The Group regularly tests and analyzes credit risk scenarios and prepares possible contingency measures, which may be implemented should the credit risk environment worsen. Zurich adjusts the scenarios if market conditions warrant.

Although the Group actively uses collateral to mitigate credit risks, the principle is nevertheless to manage the underlying credit risks independently from the collateral. The Group has limits and quality criteria to identify acceptable letter of credit providers. Letters of credit enable Zurich to limit the risk embedded in reinsurance captives, deductibles, trade credit and surety.

Macro review of the credit risk environment

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

Credit risk concentration

The Group regularly monitors and limits credit exposures by individual counterparty and related counterparties by the aggregated exposure across the various types of credit risk for that counterparty. The Group's exposure to counterparties' parent companies and subsidiaries across sources of credit risk is aggregated to include reinsurance assets, investments, certain insurance products and derivatives. Best estimates, based on statistical data and own assessment, are used to assign loss-given-default percentages and loss dependency factors reflecting, for example, double default events. The aggregated exposure information is compared with the Group's limits. The limits vary based on the underlying rating category of the counterparty. There was no material exposure in excess of the Group's limits for counterparty aggregation as of December 31, 2011 and December 31, 2010, respectively. The Chief Risk Officer routinely reports the largest exposures by rating category to the Risk Committee of the Board.

The maximum exposure to credit risk consists mainly of on-balance sheet exposures. Off-balance sheet exposures are primarily related to collateral, such as letters of credit, used to protect the underlying credit exposures on the balance sheet. The Group also has off-balance sheet exposures related to undrawn loan commitments of USD 57 million and USD 149 million as of December 31, 2011 and 2010, respectively. See note 25 of the Consolidated financial statements for undrawn loan commitments.

Risk review *continued*

Credit risk related to cash and cash equivalents

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

Cash and cash equivalents amounted to USD 8.8 billion as of December 31, 2011 and USD 8.2 billion as of December 31, 2010. 50 percent of the total was with the ten largest global banks, whose average rating was "A+" as of December 31, 2011 and 2010, respectively. The risk-weighted average rating of the overall cash portfolio has decreased from "A+" to "A" in 2011 due to several downgrades of large financial institutions.

Credit risk related to debt securities

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

Debt securities by rating of issuer

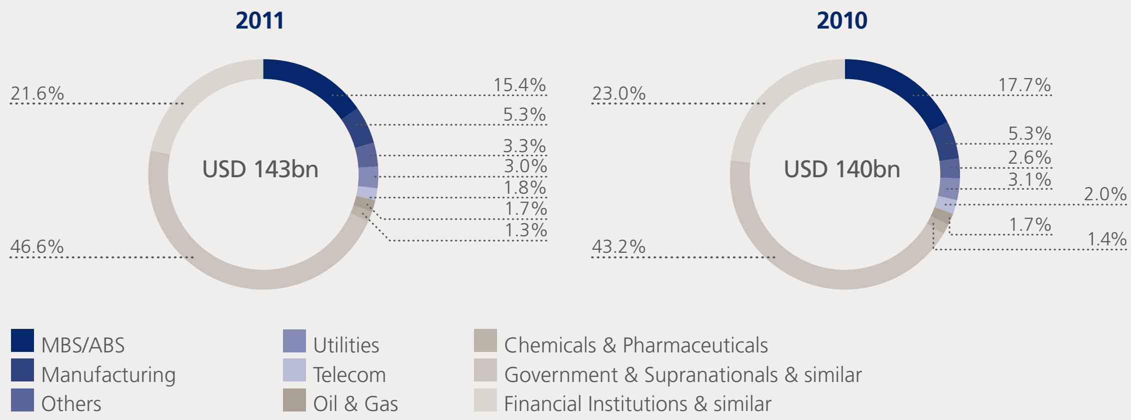
Table 14

as of December 31	**2011**		2010	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	54,206	37.9%	73,725	52.5%
AA	36,830	25.8%	16,149	11.5%
A	35,002	24.5%	36,864	26.3%
BBB	13,550	9.5%	11,443	8.2%
BB and below	2,515	1.8%	1,769	1.3%
Unrated	757	0.5%	304	0.2%
Total	**142,861**	**100.0%**	**140,254**	**100.0%**

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

The risk-weighted average issuer credit rating of the Group's debt securities portfolio is "A+" (2010: "AA-"). Applying a linear average, the average rating would be "AA", (2010: "AA"), which is in line with the Group's risk policy.

Debt securities – credit risk concentration by industry
(%, as of December 31)



As of December 31, 2011 the largest concentration in the Group's debt securities portfolio is in government and supranational debt securities at 46.6 percent. A total of USD 38.7 billion or 50.1 percent of the non-government and non-supranational debt securities are secured. As of December 31, 2010, 43.2 percent of the Group's debt portfolio was invested in governments and supranationals and a total of USD 41.3 billion or 51.4 percent of the non-government and non-supranational debt securities were secured.

Table 15

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

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

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

The second largest concentration in the Group's debt securities portfolio is to financial institutions (including banks), at 21.6 percent, of which 45.2 percent is secured. In response to the European sovereign debt crisis, the Group identified and selectively reduced unsecured and subordinated credit exposure issued by banks with weak credit profiles, and credit exposure to banks supported by weaker sovereigns.

Risk review *continued*

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

Credit risk related to reinsurance assets

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

The Group's Corporate Reinsurance Security Committee manages the credit quality of cessions and reinsurance assets. The Group typically cedes new business to authorized reinsurers with a minimum rating of "A-." 57 percent and 54 percent of the business ceded to reinsurers that fall below "A-" or are not rated are collateralized, as of December 31, 2011 and 2010, respectively. Of these percentages, 52 percent and 42 percent are ceded to captive insurance companies, in 2011 and 2010, respectively.

Reinsurance assets include reinsurance recoverables of USD 19.5 billion and USD 18.9 billion as of December 31, 2011 and 2010, respectively, which are the reinsurers' share of reserves for insurance contracts, and receivables arising from ceded reinsurance, gross of allowance for impairment, of USD 1.2 billion and USD 1.2 billion as of December 31, 2011 and 2010, respectively. Reserves for potentially uncollectible amounts of reinsurance assets amount to USD 206 million and USD 234 million as of December 31, 2011 and 2010, respectively. The Group's policy on impairment charges takes into account both specific charges for known situations (e.g. financial distress or litigation) and a general, prudent provision for unanticipated impairments.

Reinsurance assets in the table on the following page are shown before taking into account the fair value of credit default swaps, bought by the Group to mitigate credit risks of the reinsurance exposure, and other collateral such as cash or letters of credit from banks rated at least "A", which can be converted into cash and deposits received under ceded reinsurance contracts.

Compared with December 31, 2010, collateral increased by USD 200 million to USD 8.2 billion.

The risk-weighted average credit quality of reinsurance assets (including receivables, but after deduction of collateral) was "A" as of December 31, 2011 and 2010. Credit factors to determine the risk-weighted average credit quality of reinsurance assets are based on historical insurance impairment statistics, consistent with the prior year. For credit risk assessment purposes, collateral has been taken into account at nominal value as an approximation for fair value. For collateral, the Group applies minimum requirements, such as a minimum rating for the issuers of letters of credit and guarantees, and for pledged assets a minimum coverage ratio of 100 percent.

The following table shows reinsurance premiums ceded and reinsurance assets split by rating.

Table 16

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

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

[1] The increase in ceded premiums is primarily due to the Part VII transfer of a run-off portfolio, pending regulatory approval.
[2] The value of the collateral received amounts to USD 8.2 billion and USD 8.0 billion as of December 31, 2011 and 2010, respectively.

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

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

The Group's largest mortgage loan portfolios are in Germany (USD 5.2 billion, including mortgage loans given as collateral) and in Switzerland (USD 4.2 billion); these are predominantly secured against residential property. In Switzerland, the underlying properties of individual loans are revalued every 10 years. In Germany, the property valuation is not generally reassessed after the granting of the mortgage loan. A less frequent or no revaluation of the underlying property means that reported loan-to-value (LTV) ratios will be higher (lower) than they would be if property prices have risen (fallen) since their valuation. To ensure LTV ratios are not understated and to identify potentially higher LTV loans, the Group has undertaken to review, and revalue when necessary, mortgage loans in locations where property prices may have fallen since their valuation and to be conservative in valuing or revaluing property in locations where prices have substantially risen.

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

The next largest portfolio comprises loans granted by Zurich Bank (including the UK property loans of Dunbar Bank) of USD 1.4 billion (after provisions) in the UK and Ireland. They consist of residential and commercial property development financing or investment loans, secured as either property under development or completed developments. In 2010, the banks ceased originating new business in this market following the significant deterioration in economic conditions and the drop in property values in the UK and Ireland. Provisions at Zurich Bank now stand at a significant USD 631 million (USD 576 million in 2010) or 31 percent of the portfolio as of December 31, 2011; this accordingly

Risk review *continued*

reduces the carrying balance of net loans outstanding. Property valuations at Zurich Bank are reviewed regularly as part of the continual assessment of the appropriateness of provisioning on a portfolio that is largely impaired. For more details, see table 18.a and 18.b in the Risk Review.

Mortgage loans given as collateral relate to German mortgages that are subject to repurchase agreement, but where Zurich still retains the credit risk of the underlying mortgages. See note 15 of the Consolidated financial statements.

Credit risk related to other loans

The credit risk arising from other loans is assessed and monitored together with the fixed income securities portfolio. 74.1 percent of the reported loans are to municipalities or government or supranational institutions, of which 74.0 percent are to the German Central Government or the German Federal States. The table below shows the composition of the loan portfolio by rating class. As of December 31, 2011, a total of USD 7.6 billion or 72.9 percent of loans are secured. As of December 31, 2010, a total of USD 9.8 billion or 75.4 percent of loans were secured.

Table 17

Other loans by rating of issuer

as of December 31	2011		2010	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	6,761	57.1%	7,113	53.0%
AA	2,093	17.7%	2,313	17.2%
A	1,739	14.7%	2,269	16.9%
BBB and below	748	6.3%	81	0.6%
Unrated	501	4.2%	1,643	12.2%
Total	**11,842**	**100.0%**	**13,419**	**100.0%**

Credit risk related to receivables

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

Past due but not impaired receivables should be regarded as unsecured, but some of these receivable positions may be offset by collateral. The Group reports internally on Group past-due receivable balances and strives to keep the balance of past-due positions as low as possible, while taking into account customer satisfaction. In 2011, the Group continued efforts to reduce past-due receivables through both short- and long-term initiatives to improve processes and systems; some progress was made, particularly in reducing long-outstanding past-due receivables. Longer-dated past-due receivable balances often relate to positions in dispute or subject to litigation.

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

See note 18 of the Consolidated financial statements for additional information on receivables.

Credit risk related to derivatives

The positive replacement value of outstanding derivatives, such as interest rate, currency, total return and equity swaps, forward contracts and purchased options represents a credit risk to the Group. In addition there is a potential exposure arising from possible changes in replacement value. The Group regularly monitors credit risk exposures arising from derivative transactions. Outstanding positions with external counterparties are managed through an approval process embedded in derivative programs.

To limit credit risk, derivative financial instruments are typically executed with counterparties rated "A-" or better by an external rating agency. In addition, it is the Group standard to only transact derivatives with counterparties where the Group has an ISDA Master Agreement with a Credit Support Annex in place. This mitigates credit exposures from OTC transactions due to close-out netting and requires the counterparty to post collateral when the derivative position is beyond an agreed threshold. The Group mitigates credit exposures from derivative transactions further by using exchange-traded instruments whenever possible.

Analysis of financial assets

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

Table 18.a

Analysis of financial assets – current period

in USD millions, as of December 31, 2011	Debt securities	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**142,400**	**9,867**	**215**	**11,842**	**13,586**	**177,910**
Past due but not impaired financial assets. Past due by:						
1 to 90 days	–	242	4	1	1,071	1,317
91 to 180 days	–	58	1	–	259	318
181 to 365 days	–	95	1	–	186	282
> 365 days	–	149	2	–	283	433
Past due but not impaired financial assets	**–**	**543**	**7**	**1**	**1,799**	**2,350**
Financial assets impaired	**461**	**1,293**	**–**	**–**	**198**	**1,953**
Gross carrying value	**142,861**	**11,703**	**223**	**11,843**	**15,583**	**182,213**
Less: impairment allowance						
Impairment allowances on individually assessed financial assets	–	618	–	–	117	735
Impairment allowances on collectively assessed financial assets	–	27	–	–	203	230
Net carrying value	**142,861**[1]	**11,058**[2]	**223**	**11,842**	**15,263**	**181,247**

[1] Available-for-sale debt securities are included net of USD 55 million of impairment charges recognized during the year.
[2] USD 399 million past-due-but-not-impaired and USD 1.3 billion impaired mortgage loans relate to the run-off property loans at Zurich Bank.

Risk review *continued*

Analysis of financial assets – prior period

Table 18.b

in USD millions, as of December 31, 2010	Debt securities	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**139,504**	**10,431**	**737**	**13,419**	**14,163**	**178,254**
Past due but not impaired financial assets. Past due by:						
1 to 90 days	–	238	–	1	1,376	1,615
91 to 180 days	–	354	–	–	325	680
181 to 365 days	–	78	–	–	232	310
> 365 days	–	86	4	–	292	383
Past due but not impaired financial assets	**–**	**757**	**4**	**1**	**2,226**	**2,988**
Financial assets impaired	**750**	**1,254**	**2**	**1**	**176**	**2,184**
Gross carrying value	**140,254**	**12,442**	**744**	**13,421**	**16,565**	**183,426**
Less: impairment allowance						
Impairment allowances on individually assessed financial assets	–	548	–	1	123	673
Impairment allowances on collectively assessed financial assets	–	42	–	1	199	242
Net carrying value	**140,254**[1]	**11,851**[2]	**743**	**13,419**	**16,243**	**182,511**

[1] Available-for-sale debt securities are included net of USD 137 million of impairment charges recognized during 2010.
[2] USD 711 million past-due-but-not-impaired and USD 1.2 billion impaired mortgage loans relate to the run-off property loans at Zurich Bank.

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

Development of allowance for impairments – current period

Table 19.a

in USD millions	Debt securities held-to-maturity	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables
As of January 1, 2011	–	590	–	2	323
Increase/(Decrease) in allowance for impairments	–	103	–	–	42
Amounts written-off	–	(33)	–	(1)	(31)
Transfers[1]	–	–	–	–	(2)
Foreign currency translation effects	–	(15)	–	–	(12)
As of December 31, 2011	**–**	**645**	**–**	**–**	**320**

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

Table 19.b

Development of allowance for impairments – prior period

in USD millions	Debt securities held-to-maturity	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables
As of January 1, 2010	132	273	1	1	436
Increase/(Decrease) in allowance for impairments	(40)	333	–	19	(90)
Amounts written-off	(83)	(6)	(1)	(20)	(17)
Foreign currency translation effects	(10)	(10)	–	1	(6)
As of December 31, 2010	**–**	**590**	**–**	**2**	**323**

Liquidity risk

Liquidity risk is the risk that the Group may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. Zurich's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under both normal and stressed conditions. To achieve this, the Group assesses, monitors and manages its liquidity needs on an ongoing basis.

The Group has Group-wide liquidity management policies and specific guidelines as to how local businesses have to plan, manage and report their local liquidity. These include regularly conducting stress tests for all major carriers within the Group. The stress tests use a standardized set of internally defined stress events, and are designed to provide an overview of the potential liquidity drain the Group would face if it had to recapitalize local balance sheets.

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

The Group limits the percentage of the investment portfolio that is not readily realizable, and regularly monitors exposures to take action if necessary to maintain an appropriate level of asset liquidity. During 2011, the Group was within its limits for asset liquidity. The fair value hierarchy tables in note 26 to the Consolidated financial statements segregate financial assets into three levels to reflect the basis of the determination of fair value. These tables indicate the high liquidity of the Group's investments.

See note 21 of the Consolidated financial statements for additional information on debt obligation maturities and on credit facilities and note 25 of the Consolidated financial statements for information on commitments and guarantees.

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

The table on the following page provides an analysis of the expected maturity profile of reserves for insurance contracts, net of reinsurance, based on expected cash flows without considering the surrender values as of December 31, 2011 and 2010. Reserves for unit-linked insurance contracts amounting to USD 59.1 billion and USD 61.8 billion as of December 31, 2011 and 2010, respectively, are not included in the table on the following page, as policyholders can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are borne by the policyholders of unit-linked contracts.

Risk review *continued*

Table 20.a

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

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

Table 20.b

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

in USD millions, as of December 31, 2010	Reserves for losses and loss adjustment expenses	Future life policy-holders' benefits	Policyholders' contract deposits and other funds	Total
< 1 year	17,655	6,433	1,123	25,211
1 to 5 years	22,854	20,585	2,083	45,522
5 to 10 years	8,034	15,683	2,448	26,165
10 to 20 years	5,251	18,258	2,231	25,740
> 20 years	2,220	15,932	7,300	25,452
Total	**56,014**	**76,891**	**15,184**	**148,089**

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

The following table provides an analysis of the maturity of liabilities for investment contracts based on expected cash flows as of December 31, 2011 and 2010. The undiscounted contractual cash flows for liabilities for investment contracts are USD 51.0 billion and USD 50.8 billion as of December 31, 2011 and December 31, 2010, respectively. Liabilities for unit-linked investment contracts amount to USD 44.2 billion and USD 44.9 billion as at December 31, 2011 and 2010, respectively. The policyholders of unit-linked investment contracts can generally surrender their contracts at any time at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are borne by the policyholders of unit-linked investment contracts. Certain non-unit-linked contracts also allow for surrender of the contract by the policyholder at any time. Liabilities for such contracts amounted to USD 950 million and USD 1.0 billion as of December 31, 2011 and 2010 respectively. The Group has established active management of the Global Life in-force business to improve persistency and retention.

Table 21.a

Expected maturity profile for liabilities for investment contracts – current period

in USD millions, as of December 31, 2011	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	3,895	179	276	4,349
1 to 5 years	5,802	318	1,339	7,459
5 to 10 years	6,316	168	973	7,456
10 to 20 years	8,467	123	782	9,372
> 20 years	19,739	47	2,238	22,024
Total	**44,220**	**834**	**5,607**	**50,661**

Table 21.b

Expected maturity profile for liabilities for investment contracts – prior period

in USD millions, as of December 31, 2010	Liabilities related to unit-linked investment contracts	Liabilities related to investment contracts (amortized cost)	Liabilities related to investment contracts with discretionary participation features	Total
< 1 year	3,853	347	326	4,526
1 to 5 years	5,704	67	1,207	6,977
5 to 10 years	6,805	143	932	7,879
10 to 20 years	9,115	35	630	9,780
> 20 years	19,464	1	2,040	21,505
Total	**44,941**	**592**	**5,134**	**50,667**

See notes 15 and 21 of the Consolidated financial statements for information on the maturities of collateralized loans and total debt issued, respectively. For more information on the Group's other financial liabilities, see note 19 of the Consolidated financial statements.

See note 6 of the Consolidated financial statements for information on the maturity of debt securities for total investments.

The Group has committed to contribute to third parties that engage in investment in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis. See note 25 of the Consolidated financial statements.

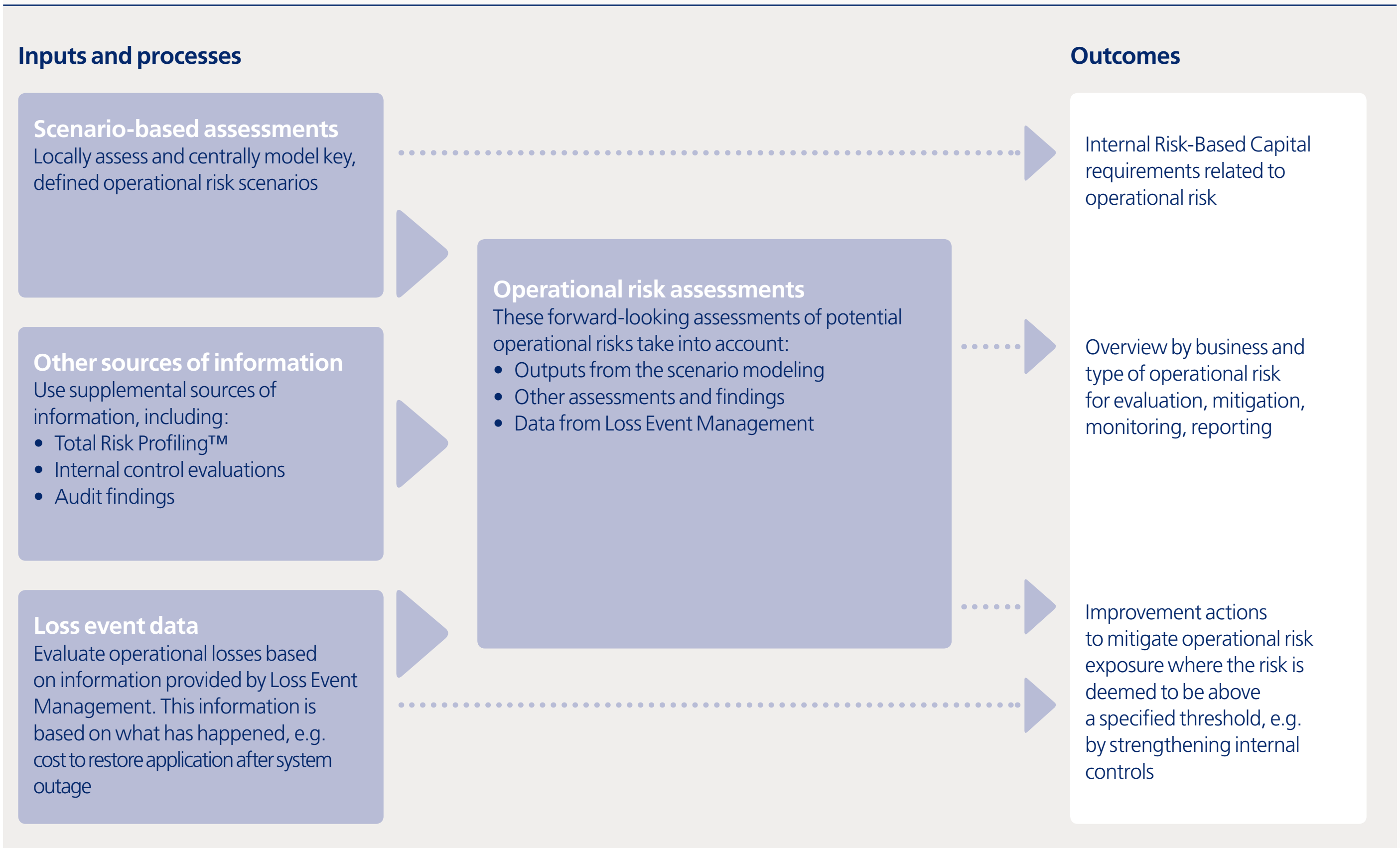
Risk review *continued*

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events such as outsourcing, catastrophes, legislation, or external fraud.

Zurich has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risk within the Group as summarized below.

Operational risk



Within this framework, the Group:

- Uses a scenario-based approach to assess and quantify risk-based capital for operational risk for all business units. This approach allows comparison information across the Group.
- Documents and evaluates loss events above a threshold determined by the Zurich Risk Policy, in a Group-wide database. Improvement actions are put in place to avoid recurrence of such operational loss events.
- Conducts operational risk assessments through which operational risks are identified for key business areas and are qualitatively assessed. Risks identified and assessed above a certain threshold must be mitigated, and escalated in specific reports at the Group level. Plans for improvement actions are documented and tracked on an ongoing basis. The Group uses a scoping exercise to determine which business units and Group-wide functional areas conduct operational risk assessments. A significant input to the scoping is risk-based capital consumption for operational risk. In 2011, the scoping resulted in at least 34 percent of business units, responsible for at least 61 percent of operational risk Risk-Based Capital, conducting operational risk assessments. In the assessments, the Group uses such sources of information as Total Risk Profiling™, internal control assessments, and audit findings, as well as scenario modeling and loss event data.

In addition to its overall framework, the Group has specific processes and systems in place to focus on high priority operational matters such as information security, managing business continuity, and combating fraud.

In the area of information security, the Group continued to focus on its global data security improvement initiative with special emphasis on data classification and ownership, improving data security with its suppliers and monitoring access to customer data. This helps the Group's businesses to further enhance governance of electronic and non-electronic information assets to protect data from theft or loss and ensure compliance with regulation and policies.

A key task is keeping the Group's business continuity plans up-to-date, with an emphasis on recovery from events such as natural catastrophes and the possibility of a pandemic. In 2011, the Group continued to develop its existing business continuity capability by implementing a more globally consistent approach to business continuity and crisis management.

Addressing the risk of claims and non-claims fraud continues to be of importance. In 2011, the Group continued its global anti-fraud initiative to further improve the Group's ability to prevent, detect and respond to fraud. While claims fraud is calculated as part of insurance risk and non-claims fraud is calculated as part of operational risk for risk-based capital, both are part of the common framework for assessing and managing operational risks.

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

The Group considers controls to be key instruments for monitoring and managing operational risk. Although primarily focused on important controls for financial reporting, internal control efforts also include related operational and compliance controls. Therefore, the Group continues to strengthen the consistency, documentation and assessment of internal controls for significant entities and business processes. Operational effectiveness of key controls is assessed by self assessment and independent testing. For more details, see the "Risk Management and Internal Control Statement" in the "Corporate Governance Report (unaudited)."

Risks to the Group's reputation

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

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

Risk review *continued*

Capital Management and Analysis of Capital Adequacy

Capital management

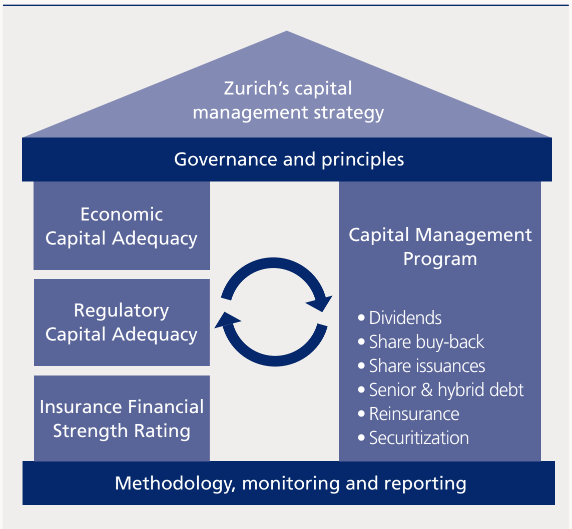
The Group's capital management strategy is to maximize long term shareholder value by optimizing capital allocation while managing the balance sheet at "AA" level and in accordance with regulatory, solvency and rating agency requirements. In particular, the Group endeavors to manage its capital such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

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

Capital management framework

The Group's capital management framework forms the basis for actively managing capital within Zurich. Major elements are economic, regulatory, and rating agency capital adequacy.

Capital management framework



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

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

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

Capital management program

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

The Group seeks to maintain the balance between higher returns for shareholders on equity held, which may be possible with higher levels of borrowing, and the security provided by a sound capital position. The payment of dividends, share buy-backs, and issuances and redemption of debt have an important influence on capital levels. In 2011, the Group paid a dividend out of the capital contribution reserve, repaid outstanding preferred securities and refinanced with subordinated debt securities, and replaced maturing senior debt with new senior debt.

Zurich Financial Services Ltd is not subject to legal restrictions on the amount of dividends it may pay to its shareholders other than under the Swiss Code of Obligations. The Swiss Code of Obligations provides that dividends may only be paid out of freely distributable reserves or retained earnings and that 5 percent of annual retained earnings must be allocated to a general legal reserve until such reserve in the aggregate has reached 20 percent of the paid-in share capital; therefore the earnings allocated to those reserves are restricted. As of December 31, 2011, the amount of the general legal reserve exceeded 20 percent of the paid-in share capital of the Group. Similarly, company laws in many countries in which the Group's subsidiaries operate may restrict the amount of dividends payable by those subsidiaries to their parent companies.

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

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

For details on dividend payments, and issuances and redemptions of debt, see notes 21 and 22 of the Consolidated financial statements.

Analysis of capital adequacy

Insurance Financial Strength Rating

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

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

Regulatory capital adequacy

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

In each country in which the Group operates, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in addition to their liabilities. The Group targets to hold, in addition to the minimum capital required to comply with the solvency requirements, an adequate buffer to ensure that each of its regulated subsidiaries meets the local capital requirements. The Group is subject to different capital requirements depending on the country in which it operates. The main areas are Switzerland and European Economic Area countries, and the U.S.

Risk review *continued*

Regulatory requirements in Europe

In Switzerland, the transition period for the Swiss Solvency Test (SST) expired and the SST became fully effective and mandatory as of January 1, 2011. Under SST, groups, conglomerates and reinsurers are required to use company-specific internal models to calculate risk-bearing and target capital. Internal models must be approved by the Swiss Financial Market Supervisory Authority (FINMA). In 2011, Zurich continued to further enhance and refine its internal model to meet evolving regulatory requirements. The model approval process continues with FINMA, which has approved on a provisional basis the use of Zurich's internal model for 2011, without prejudicing the final approval of the internal model. Zurich has filed an SST ratio with FINMA in excess of 200 percent for the Group, both as of January 1, 2011 and as of July 1, 2011. For more details, see the "Swiss Solvency Test Requirement" section in the Risk Review.

In European countries, insurance entities are required to maintain minimum solvency margins according to the existing Solvency I legislation. Solvency I capital is calculated as a fixed percentage of premiums, claims, reserves and/or net amounts at risk. The required minimum solvency margin for general insurers is the greater of 16 percent of premiums written for the year or 23 percent of a three-year average of claims incurred, subject to the first tranche (EUR 61 million) of premiums at 18 percent and the first tranche (EUR 43 million) of claims at 26 percent. In these calculations, premiums and claims for certain liability lines are increased by 50 percent. A reduction is given for reinsurance based on reinsurance claims recoveries over three years as a percentage of gross claims in those years, limited to a maximum of 50 percent. Life insurance companies are required to maintain a minimum solvency margin generally of 4 percent of insurance reserves, but reduced to 1 percent of insurance reserves for life insurance where the credit and market risks are carried by policyholders, plus 0.3 percent of the amount at risk under insurance policies. The same minimum capital requirements are applicable for insurance entities operating in Switzerland. In certain European countries, both EU and non-EU, further requirements have been imposed by regulators.

On November 25, 2009 the directive on Solvency II was adopted. Solvency II introduces a new regime and reflects the latest developments in prudential supervision, actuarial methods and risk management. It includes economic risk-based solvency requirements, which are more risk sensitive and more sophisticated than Solvency I. Solvency II capital requirements also consider all material risks and their interactions. As part of the risk management system, all EU/EEA insurance and reinsurance entities will be required to conduct their own risk and solvency assessment, including the assessment of the overall solvency needs reflecting their specific risk profiles. As part of the disclosure provisions, companies will have to publicly report their solvency and financial condition.

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

Other regulatory requirements

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

The Group's banking operations, based in Europe, adopted Basel II as of January 1, 2008. Under Basel II, required capital is calculated on a risk-based approach. The Group will adopt the Basel III framework in which new requirements are expected to be implemented in phases between 2013 and 2019. Key aspects of the new global banking standards include higher quality of capital, better coverage of risk, an internationally harmonized leverage ratio, capital buffers, minimum global liquidity standards as well as stronger standards for supervision, public disclosure and risk management.

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

Solvency I requirements at Group level

The Group continues to be subject to Solvency I requirements based on the Swiss Insurance Supervisory Law. The following table sets out the Solvency I position as filed with FINMA for 2010 and as drafted for filing with the Swiss regulator for 2011.

The Group's Solvency I composition

Table 22

in USD millions, as of December 31	2011	2010
Eligible equity		
Total equity	**34,017**	**33,241**
Net of intangibles and other assets	(8,243)[1]	(6,998)
Free reserves for policyholder dividends	3,032	2,736
Subordinated debt[2]	4,854	4,673
Deferred policyholder acquisition costs non-life insurance	(3,034)	(2,709)
Dividends	(2,647)[3]	(2,643)
Total eligible equity	**27,977**	**28,300**
Total required solvency capital	**11,582**	**12,217**
Excess margin	**16,395**	**16,083**
Solvency I ratio	**242%**	**232%**[4]

[1] Includes a preliminary estimate for intangibles related to the acquisition in Latin America (for more information, see note 5 of the Consolidated financial statements).
[2] Under regulations issued by FINMA during 2007, dated subordinated debt issuances are admissible up to 25 percent of the capital requirement, undated issuances up to 50 percent of the capital requirement.
[3] Amount for dividend reflects the proposed dividend for the financial year 2011, not yet approved by the Annual General Meeting.
[4] As filed with FINMA for 2010. The preliminary solvency ratio stated in the 2010 Consolidated financial statements was 243%.

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

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

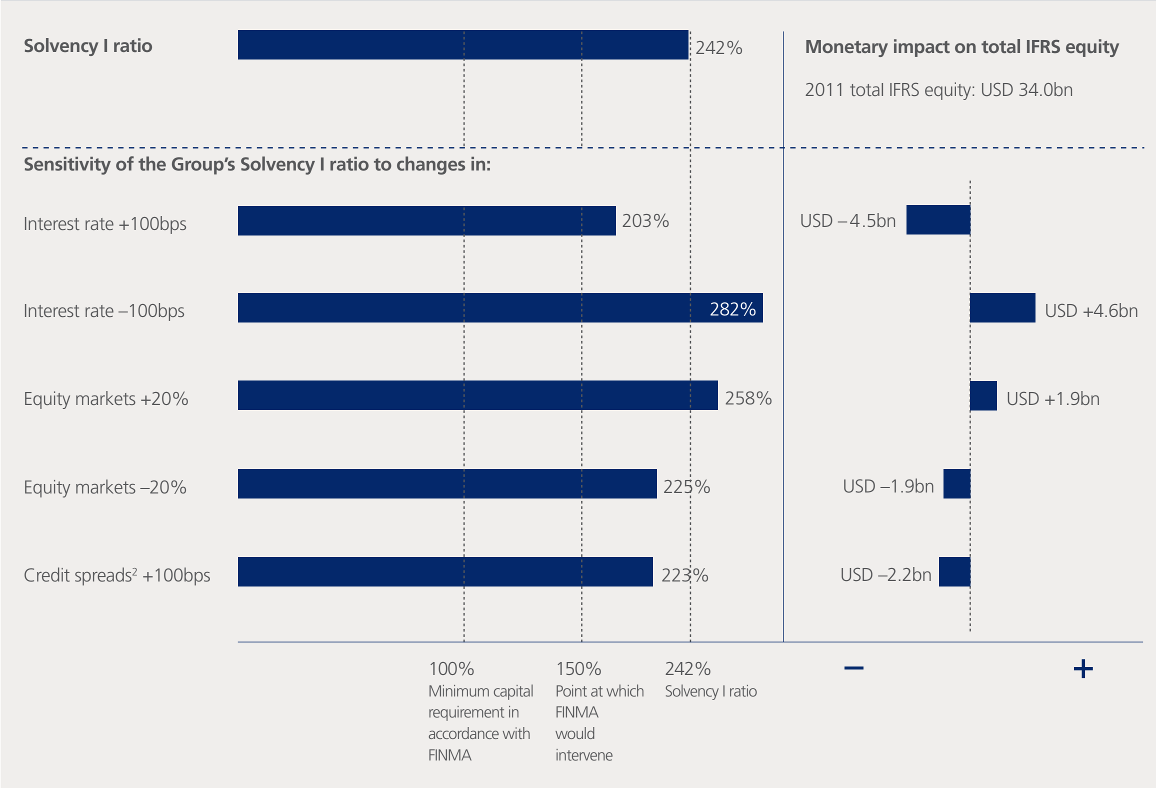
The chart on the following page shows the estimated impact on the Group's solvency position of a one percentage point increase/decrease in yield curves, a separate 20 percent rise/decline in all stock markets, after consideration of hedges in place and a separate one percentage point change in credit spreads, as of December 31, 2011. The sensitivities are considered three separate but instantaneous scenarios.

Limitations of the analysis:

- The sensitivity analysis does not take into account actions that might be taken to mitigate losses. The Group uses an active strategy to manage these risks, which may involve changing the asset allocation, for example, through selling and buying assets.
- The sensitivities show the effects from a change of certain risk factors, while other assumptions, such as policyholder assumptions, remain unchanged.
- The interest rate scenarios assume a parallel shift of all interest rates.
- The equity market scenario assumes a concurrent movement of all stock markets.
- The impact on unit-linked business is not included, as policyholders bear the majority of investment risk.
- The impact on changes to the required capital is not included in the sensitivities for the Solvency I ratio.
- The major markets in which the Group invests are the U.S. and Europe. The major interest rate exposures are to U.S. dollar- and euro- denominated assets and liabilities. The sensitivities do not indicate a probability of such events and do not necessarily represent the Group's view of expected future market changes. Debt securities are primarily exposed to interest rate risk, while equity securities are primarily exposed to equity market risk. Debt securities can be affected also by spread widening due to changes in credit quality.
- The Group effective tax rate is assumed to be 24.1 percent in 2011. For the Non-Core Businesses with life insurance characteristics, specific tax rates have been applied.

Risk review *continued*

Sensitivities for the Group's Solvency I ratio and IFRS equity[1]
(as of December 31, 2011)



[1] Does not include sensitivities to the underlying assets and liabilities related to the acquisition in Latin America (for more information, see note 5 of the Consolidated financial statements).
[2] The credit spread sensitivity is applied to corporate debt, mortgages and Euro currency sovereign debt (excluding Germany).

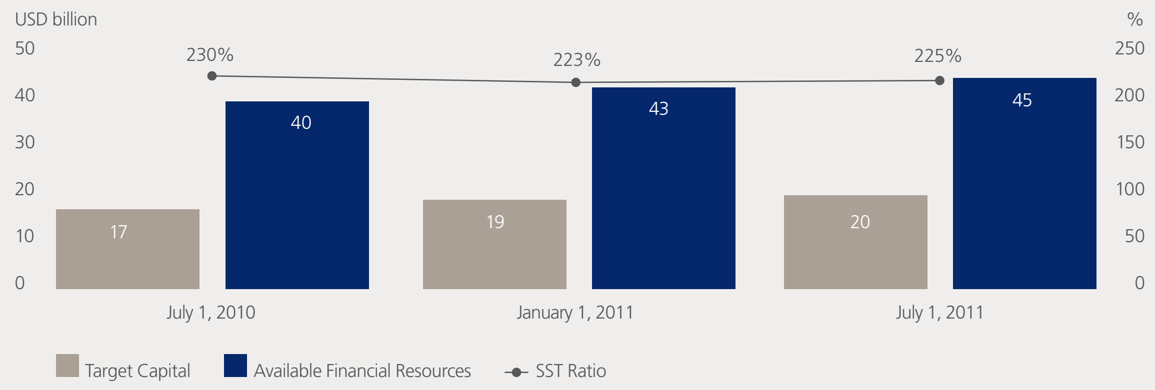
Beginning of unaudited section.

Swiss Solvency Test requirement

Since January 1, 2011, the Swiss Solvency Test (SST) capital requirements are binding in Switzerland. The Group uses an adaptation of its internal Risk-Based Capital (RBC) model to comply with the SST requirements and runs a full SST calculation twice a year. The model is still subject to FINMA approval. For more details about RBC, see the "Internal Model Capital Adequacy (unaudited)" section in the Risk Review. For more details about the SST model approval process see the "Regulatory Requirements in Europe" section in the Risk Review.

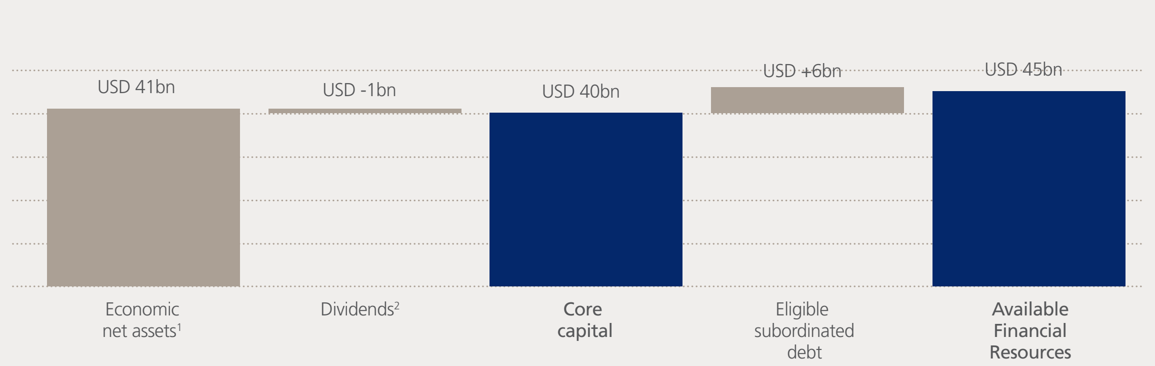
The chart below shows the estimated Available Financial Resources (AFR) for the SST at the beginning of the respective period to cover the risks that could materialize over a one year time horizon. As of July 1, 2011 the AFR amounted to USD 45 billion, while the SST Target Capital measured as an expected shortfall at the 99 percent confidence level, amounted to USD 20 billion. The Group has filed with FINMA an SST ratio of 225 percent, which is a slight improvement compared to January 1, 2011 when the filed ratio was 223 percent.

Development of the Group's Swiss Solvency Test ratio
(in USD billions rounded)



The following chart shows the composition of the AFR for the SST as of July 1, 2011. Available Financial Resources for the SST are calculated by revaluing all balance sheet items in a market-consistent way.

Analysis of the composition of the Group's Available Financial Resources for the Swiss Solvency Test
(in USD billions rounded, as of July 1, 2011)

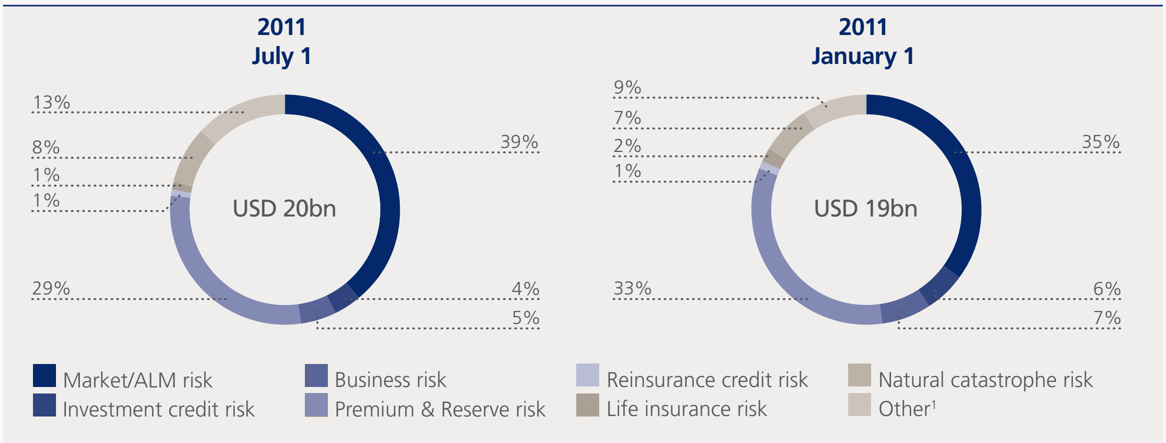


[1] Economic net assets represent the excess of assets over liabilities on the market-consistent balance sheet. In accordance with the SST principles, the market value margin is not treated as part of technical provisions but as part of the SST Target Capital.
[2] Amount for dividend reflects the proposed dividend pro-rata for the financial year 2011, not yet approved by the Annual General Meeting.

Risk review *continued*

The chart below shows the split of the SST Target Capital as of July 1, 2011 and as of January 1, 2011. The largest proportion of the SST Target Capital as of July 1, 2011, arises from Market/ALM risk, which comprises 39 percent of the total. Premium & Reserve risk is the second largest, comprising 29 percent. Note that under the SST requirements, no capital has to be set aside for operational risk. Premium & Reserve risk decreased over the first half of 2011 due to increased reinsurance on a run-off portfolio and the annual reparametrization of the risk factors.

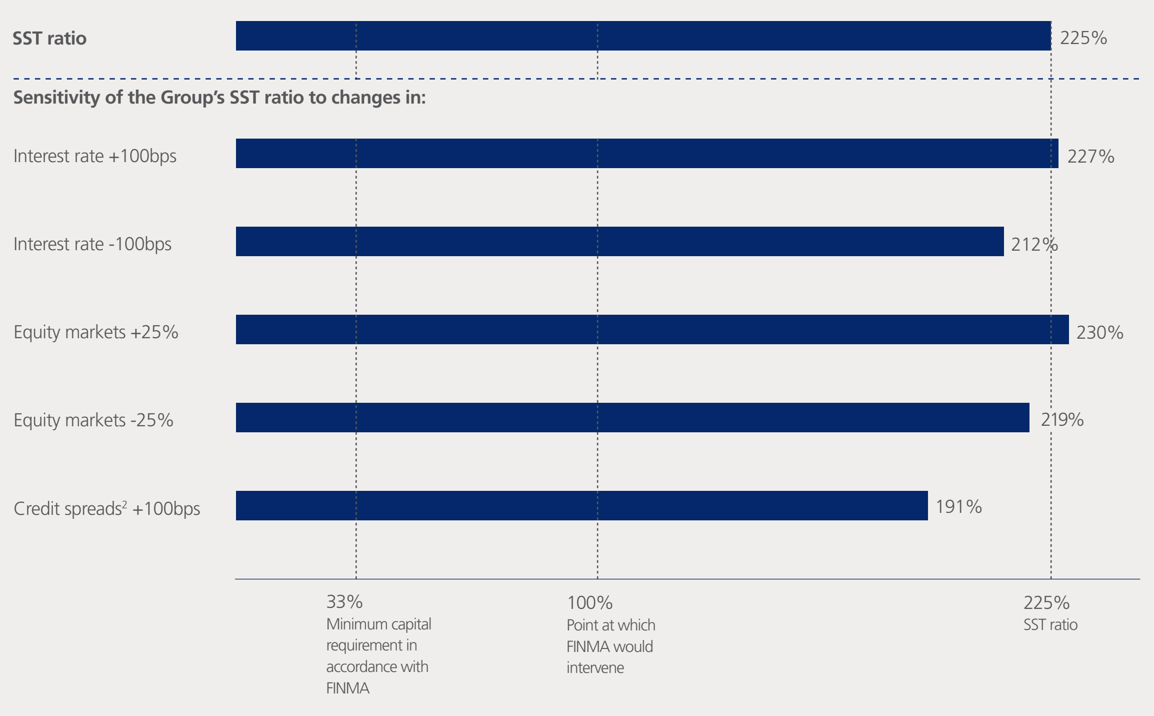
The Group's Swiss Solvency Test Target Capital split by risk type
(%, as of July 1 and January 1, 2011)



[1] Other includes the impact of SST extreme scenarios, market value margin, and expected General Insurance result.

The following chart shows the estimated impact on the Group's SST ratio of a one percentage point increase/decrease in yield curves, a separate 25 percent rise/decline in all stock markets, after consideration of hedges in place and a separate one percentage point change in credit spreads, as of July 1, 2011. The sensitivities are considered three separate but instantaneous scenarios.

Sensitivities for the Group's Swiss Solvency Test ratio[1]
(as of July 1, 2011)



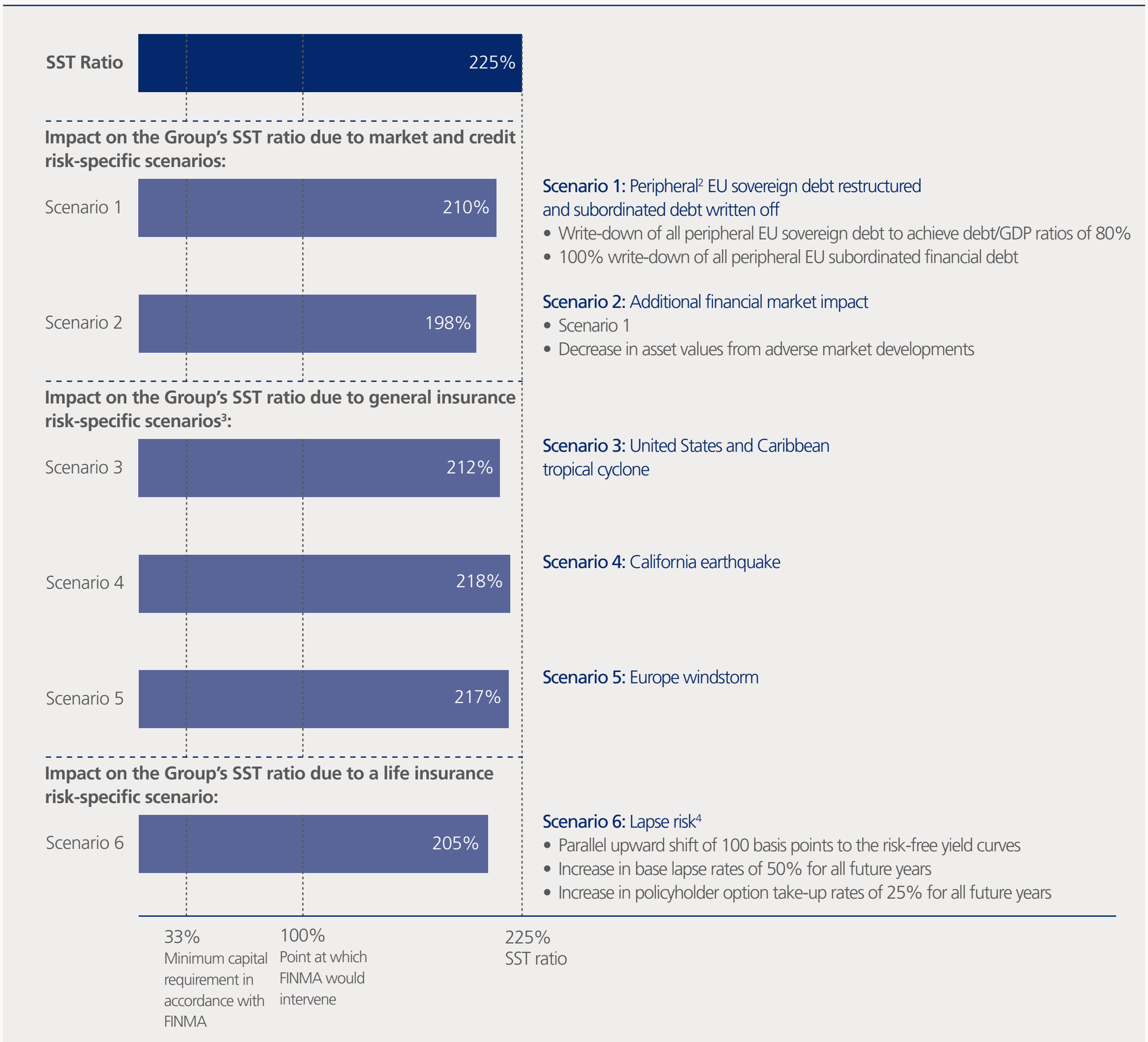
[1] Does not include sensitivities to the underlying assets and liabilities related to the acquisition in Latin America (for more information, see note 5 of the Consolidated financial statements). The impact of sensitivities on changes to the SST Target Capital is only approximated and only taken into account on Market/ALM risk.
[2] The credit spread sensitivity is applied to corporate debt, mortgages and Euro currency sovereign debt (excluding Germany). The credit spread sensitivity does not take into account the buffering effect of policyholder participation.

In addition to the sensitivities shown above, the Group also evaluates certain stress scenarios on the SST ratio. Scenarios are defined as events that have a very small probability of occurrence and that could, if realized, negatively affect the Group's SST Available Financial Resources. The following chart shows three groups of scenarios: market and credit risk-specific, general insurance risk-specific, and life insurance risk-specific. In the current market environment the market and credit risk-specific scenarios particularly focus on peripheral EU debt exposure and adverse financial market impact on equity markets and interest rates in the EU. The general insurance risk-specific scenarios present the three largest natural catastrophe events to which the Group is exposed. Lapse risk represents the Group's largest life insurance risk-specific exposure.

Risk review *continued*

Impact of scenarios on the Group's Swiss Solvency Test ratio[1]

(as of July 1, 2011)



[1] The impact of scenarios on changes to the SST Target Capital is not included in the sensitivities for the SST ratio as the impact is expected to be small and positive. Scenario 1 and Scenario 2 do not take into account the buffering effect of policyholder participation.
[2] Greece, Ireland, Italy, Portugal and Spain
[3] The general insurance risk-specific scenarios relate to natural catastrophe events that are estimated on a modeled 250-year net aggregate loss (equivalent to a 99.6% probability of non-exceedance).
[4] The second assumption under the lapse risk scenario, "increase in base lapse rates of 50% for all future years", is applied in a similar manner as the Embedded Value sensitivity, "10% increase in voluntary discontinuance rates"; however the former is pre-tax while the latter is post-tax (for more details, see the "Embedded Value Report"). Also, combining the assumptions in the lapse risk scenario introduces potential non-linear effects, which makes it difficult to directly compare the scenario with the Embedded Value sensitivity.

Internal model capital adequacy

Internally the Group uses its Risk-Based Capital (RBC) model, which forms also the basis of the SST model. The RBC model targets a total capital level that is calibrated to an "AA" financial strength. Zurich defines RBC as being the capital required to protect the Group's policyholders in order to meet all of their claims with a confidence level of 99.95 percent over a one-year time horizon.

While the Group's RBC model and the SST model are broadly the same, below is a summary of the main differences between the two approaches:

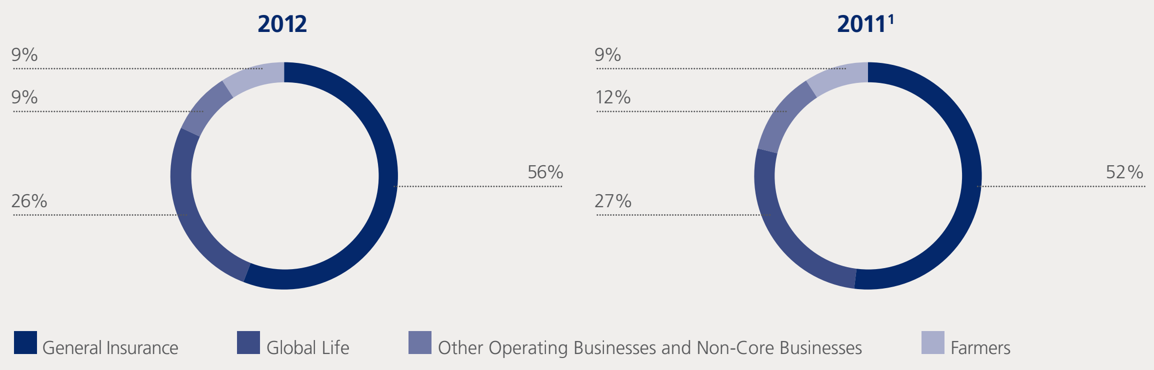
- Model calibration – RBC calibration is based on a Value at Risk at a 99.95% confidence level, whereas SST calibration is based on an Expected Shortfall at a 99% confidence level. Thereby, the Group sets itself a higher financial strength target than the SST regulatory requirement.
- Scope – Operational and business risk for General Insurance are reflected in RBC, but not required in SST.
- Market/ALM risk – The extreme scenario for Market/ALM risk in RBC is directly attributed to Market/ALM risk; whereas, extreme scenarios in SST are aggregated to the combination of all risk types. This treatment of the extreme scenario in the RBC model leads to a more conservative result than in the SST model.
- Available Financial Resources (AFR) – Senior debt is included in AFR for RBC purposes, but not included in AFR for SST calculation.

The Group uses RBC to assess the economic capital consumption of its business on a one-balance-sheet approach. The RBC framework is an integral part of how the Group is managed. The RBC framework is embedded in the Group's organization and decision making, and is used in capital allocation, business performance management, pricing, reinsurance purchasing, transaction evaluation, risk optimization, regulatory, investor, and rating agency communication.

At the Group level, Zurich compares RBC to the Group's AFR to derive an Economic Solvency Ratio. AFR reflects financial resources available to cover policyholder liabilities in excess of their expected value. It is derived by adjusting the IFRS shareholders' equity to reflect the full economic capital base available to absorb any unexpected volatility in the Group's business activities.

The chart below shows a split of the RBC allocated to the segments for the year 2011 and 2010 respectively. The largest proportion of RBC is allocated to General Insurance, which comprises 56 percent of the total, followed by Global Life with 26 percent of the total.

The Group's Risk-Based Capital allocated by segment
(%, as of January 1)



[1] The Group's estimated RBC allocated by segment as of January 1, 2011 has been updated from the Risk Review in the 2010 Annual Report, based on the actual model results.

End of unaudited section.

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Consolidated financial statements

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Consolidated income statements

in USD millions, for the years ended December 31	Notes	2011	Restated 2010
Revenues			
Gross written premiums		47,748	47,559
Policy fees		2,452	2,406
Gross written premiums and policy fees		50,200	49,965
Less premiums ceded to reinsurers		(6,550)	(5,683)
Net written premiums and policy fees		43,650	44,282
Net change in reserves for unearned premiums	11	(751)	1,234
Net earned premiums and policy fees		42,899	45,516
Farmers management fees and other related revenues	14	2,767	2,778
Net investment result on Group investments	6	9,367	7,990
Net investment income on Group investments		7,185	7,092
Net capital gains/(losses) and impairments on Group investments		2,182	898
Net investment result on unit-linked investments	6	(3,544)	10,093
Net gain/(loss) on divestments of businesses	5	6	38
Other income		1,488	1,442
Total revenues		52,983	67,857
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	11	38,106	38,591
Less ceded insurance benefits and losses	11	(5,052)	(4,106)
Insurance benefits and losses, net of reinsurance	11	33,054	34,484
Policyholder dividends and participation in profits, net of reinsurance	11	(2,685)	10,801
Underwriting and policy acquisition costs, net of reinsurance	11	8,523	8,649
Administrative and other operating expense	13	8,270	7,976
Interest expense on debt	21	586	556
Interest credited to policyholders and other interest		479	529
Total benefits, losses and expenses		48,227	62,995
Net income before income taxes		4,757	4,862
Income tax expense	20	(965)	(1,355)
attributable to policyholders	20	242	(462)
attributable to shareholders	20	(1,206)	(894)
Net income after taxes		**3,792**	3,507
attributable to non-controlling interests		25	79
attributable to shareholders		3,766	3,428
in USD			
Basic earnings per share	22	25.81	23.59
Diluted earnings per share	22	25.61	23.40
in CHF			
Basic earnings per share	22	22.79	24.53
Diluted earnings per share	22	22.62	24.33

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

Consolidated financial statements *continued*

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments
2010		
Comprehensive income for the period, as restated	3,428	2,081
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,069
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(589)
Deferred income tax (before foreign currency translation effects)		(520)
Foreign currency translation effects		121
2011		
Comprehensive income for the period	3,766	332
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		866
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(644)
Deferred income tax (before foreign currency translation effects)		113
Foreign currency translation effects		(4)

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

Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
65	(724)	28	(162)	1,288	4,716	(14)	4,702
(45)	(704)	41	(192)	2,169			
134	(20)	–	–	(475)			
(6)	–	(13)	51	(488)			
(18)	–	–	(22)	81			
176	(1,512)	54	(933)	(1,883)	1,883	(74)	1,809
207	(1,469)	73	(1,328)	(1,651)			
53	(43)	–	–	(633)			
(71)	–	(19)	352	376			
(13)	–	–	44	26			

Consolidated financial statements *continued*

Consolidated balance sheets

Assets

in USD millions, as of	Notes	12/31/11	Restated 12/31/10	Restated 01/01/10
Investments				
Total Group investments		194,385	195,898	195,658
Cash and cash equivalents		8,768	8,182	10,318
Equity securities		11,226	13,729	12,581
Debt securities		142,861	140,254	136,723
Real estate held for investment		8,468	8,274	7,789
Mortgage loans		11,058	11,851	12,736
Other loans		11,842	13,419	15,279
Investments in associates and joint ventures		161	188	232
Investments for unit-linked contracts		104,603	107,947	99,167
Total investments	6	298,988	303,845	294,825
Reinsurers' share of reserves for insurance contracts	8	19,361	18,816	18,751
Deposits made under assumed reinsurance contracts		2,711	2,837	3,870
Deferred policy acquisition costs	12	16,864	16,281	16,146
Deferred origination costs	12	824	866	856
Accrued investment income		2,589	2,749	2,744
Receivables and other assets	18	32,766	17,671	17,100
Mortgage loans given as collateral	15	223	743	1,102
Deferred tax assets	20	2,076	2,067	2,421
Assets held for sale[1]		54	–	67
Property and equipment	16	1,579	1,689	1,942
Goodwill	17	2,060	2,104	2,297
Other intangible assets	17	5,774	5,954	7,044
Total assets		**385,869**	**375,623**	**369,168**

[1] See note 5.

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

Liabilities and equity

in USD millions, as of	Notes	12/31/11	Restated 12/31/10	Restated 01/01/10
Liabilities				
Reserve for premium refunds		554	518	649
Liabilities for investment contracts	9	50,661	50,667	46,124
Deposits received under ceded reinsurance contracts		1,543	1,362	1,558
Deferred front-end fees		5,720	5,626	5,543
Reserves for insurance contracts	8	240,811	242,719	242,172
Obligations to repurchase securities		1,794	3,330	3,976
Accrued liabilities		3,110	3,011	2,839
Other liabilities	19	31,317	18,396	18,299
Collateralized loans	15	223	743	1,102
Deferred tax liabilities	20	4,049	4,554	4,412
Liabilities held for sale[1]		55	–	–
Senior debt	21	6,541	6,453	6,302
Subordinated debt	21	5,476	5,004	5,167
Total liabilities		**351,852**	**342,382**	**338,142**
Equity				
Share capital	22	10	10	10
Additional paid-in capital	22	9,907	11,630	11,400
Net unrealized gains/(losses) on available-for-sale investments		2,800	2,468	387
Cash flow hedges		232	56	(9)
Cumulative foreign currency translation adjustment		(2,632)	(1,120)	(396)
Revaluation reserve		180	126	98
Retained earnings		21,139	18,259	17,174
Common shareholders' equity		31,636	31,429	28,665
Preferred securities	22	–	475	561
Shareholders' equity		31,636	31,905	29,226
Non-controlling interests		2,380	1,336	1,799
Total equity		**34,017**	**33,241**	**31,025**
Total liabilities and equity		**385,869**	**375,623**	**369,168**

[1] See note 5.

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

Consolidated financial statements *continued*

Consolidated statements of cash flows

in USD millions, for the years ended December 31	2011	Restated 2010
Cash flows from operating activities		
Net income attributable to shareholders	3,766	3,428
Adjustments for:		
Net (gain)/loss on divestments of businesses	(6)	(38)
Income from equity method accounted investments	(12)	(17)
Depreciation, amortization and impairments of fixed and intangible assets	996	1,086
Other non-cash items	123	789
Underwriting activities:	(2,245)	13,006
Reserves for insurance contracts, gross	*(1,189)*	5,781
Reinsurers' share of reserves for insurance contracts	*(728)*	(18)
Liabilities for investment contracts	*167*	7,058
Deferred policy acquisition costs	*(860)*	(611)
Deferred origination costs	*34*	(23)
Deposits made under assumed reinsurance contracts	*133*	1,032
Deposits received under ceded reinsurance contracts	*199*	(214)
Investments:	3,050	(16,845)
Net capital (gains)/losses on total investments and impairments	*3,119*	(9,430)
Net change in trading securities and derivatives	*(13)*	7
Net change in money market investments	*1,645*	411
Sales and maturities		
Debt securities	*109,078*	96,192
Equity securities	*52,149*	57,853
Other	*80,788*	47,233
Purchases		
Debt securities	*(108,346)*	(104,679)
Equity securities	*(54,555)*	(56,960)
Other	*(80,815)*	(47,472)
Proceeds from sale and repurchase agreements	(1,572)	(502)
Movements in receivables and payables	494	1,379
Net changes in other operational assets and liabilities	(573)	(999)
Deferred income tax, net	(133)	258
Net cash provided by/(used in) operating activities	3,888	1,543

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

in USD millions, for the years ended December 31	2011	Restated 2010
Cash flows from investing activities		
Sales of property and equipment	49	117
Purchases of property and equipment	(199)	(182)
Disposal of equity method accounted investments, net	42	2
Acquisitions of companies, net of cash acquired	(1,090)	(48)
Divestments of companies, net of cash balances	20	(27)
Dividends from equity method accounted investments	3	3
Net cash used in investing activities	(1,176)	(135)
Cash flows from financing activities		
Dividends paid	(2,835)	(2,220)
Issuance of share capital	83	95
Net movement in treasury shares and preferred securities	7	(61)
Redemption of preferred securities and repayments to non-controlling interests	(476)	–
Issuance of debt	2,645	1,120
Repayments of debt outstanding	(1,863)	(982)
Net cash provided by/(used in) financing activities	(2,439)	(2,049)
Foreign currency translation effects on cash and cash equivalents	48	(383)
Change in cash and cash equivalents excluding change in cash held as collateral for securities lending	322	(1,023)
Cash and cash equivalents as of January 1, excluding cash held as collateral for securities lending	9,726	10,749
Cash and cash equivalents as of December 31, excluding cash held as collateral for securities lending	**10,048**	**9,726**
Change in cash held as collateral for securities lending	–	(493)
Cash and cash equivalents as of January 1, including cash held as collateral for securities lending	9,726	11,242
Cash and cash equivalents as of December 31, including cash held as collateral for securities lending	**10,048**	**9,726**
of which:		
– cash and cash equivalents – Group investments	8,768	8,182
– cash and cash equivalents – unit linked	1,280	1,544
Other supplementary cash flow disclosures		
Other interest income received	7,270	6,868
Dividend income received	1,778	1,667
Other interest expense paid	(1,106)	(1,182)
Income tax (paid)	(1,229)	(1,363)

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

Cash and cash equivalents

in USD millions, as of December 31	2011	Restated 2010
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,297	5,956
Cash equivalents	4,751	3,770
Total	**10,048**	**9,726**

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

Consolidated financial statements *continued*

Consolidated statements of changes in equity

in USD millions	Share capital	Additional paid-in capital	Net unrealized gains/(losses) on available-for-sale investments
Balance as of December 31, 2009, as previously reported	10	11,400	387
Total adjustments due to restatement	–	–	–
Balance as of December 31, 2009, as restated	10	11,400	387
Issuance of share capital[1]	–	205	–
Dividends to shareholders	–	–	–
Share-based payment transactions	–	28	–
Treasury share transactions[4]	–	(3)	–
Change of ownership with no loss of control	–	–	–
Total comprehensive income for the period, net of tax	–	–	2,081
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*2,081*
Cash flow hedges	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of December 31, 2010	10	11,630	2,468
Balance as of December 31, 2010, as previously reported	10	11,630	2,468
Total adjustments due to restatement	–	–	–
Balance as of December 31, 2010, as restated	10	11,630	2,468
Issuance of share capital[1]	–	211	–
Dividends to shareholders[2]	–	(1,912)	–
Redemption of preferred securities[3]	–	(15)	–
Share-based payment transactions	–	22	–
Treasury share transactions[4]	–	(30)	–
Total comprehensive income for the period, net of tax	–	–	332
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*332*
Cash flow hedges	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of December 31, 2011	**10**	**9,907**	**2,800**

[1] The number of common shares issued as of December 31, 2011 was 147,385,822 (December 31, 2010: 146,586,896, December 31, 2009: 147,473,068).
[2] As approved by the Annual General Meeting on March 31, 2011, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 795 million between the dividend at transaction day exchange rates amounting to USD 2,706 million and the dividend at historical exchange rates amounting to USD 1,912 million is reflected in the cumulative foreign currency translation adjustment.
[3] Zurich RegCaPS Funding Trusts II, V and VI redeemed USD 575 million of Trust Capital Securities II, V and VI on March 30, 2011 (Series II), on April 4, 2011 (Series V) and on April 25, 2011 (Series VI) respectively.
[4] The number of treasury shares deducted from equity as of December 31, 2011 amounted to 1,373,392 (December 31, 2010: 1,399,080, December 31, 2009: 3,269,338).

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

Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Common shareholders' equity	Preferred securities	Shareholders' equity	Non-controlling interests	Total equity
(9)	(396)	98	17,253	28,743	561	29,304	1,800	31,104
–	–	–	(79)	(79)	–	(79)	(1)	(79)
(9)	(396)	98	17,174	28,665	561	29,226	1,799	31,025
–	–	–	–	205	–	205	–	205
–	–	–	(2,202)	(2,202)	(11)	(2,213)	(7)	(2,220)
–	–	–	–	28	–	28	–	28
–	–	–	28	25	(86)	(61)	–	(61)
–	–	–	4	4	–	4	–	4
65	(724)	28	3,255	4,704	11	4,716	(13)	4,703
–	*–*	*–*	*3,416*	*3,416*	*11*	*3,428*		
–	*–*	*–*	*–*	*2,081*	*–*	*2,081*		
65	*–*	*–*	*–*	*65*	*–*	*65*		
–	*(724)*	*–*	*–*	*(724)*	*–*	*(724)*		
–	*–*	*28*	*–*	*28*	*–*	*28*		
–	*–*	*–*	*(162)*	*(162)*	*–*	*(162)*		
–	–	–	–	–	–	–	(443)	(443)
56	(1,120)	126	18,259	31,429	475	31,905	1,336	33,241
56	(1,125)	126	18,344	31,509	475	31,984	1,337	33,321
–	5	–	(85)	(79)	–	(79)	(1)	(80)
56	(1,120)	126	18,259	31,429	475	31,905	1,336	33,241
–	–	–	–	211	–	211	–	211
–	–	–	–	(1,912)	(4)	(1,916)	(22)	(1,938)
–	–	–	–	(15)	(462)	(476)	–	(476)
–	–	–	–	22	–	22	–	22
–	–	–	50	21	(14)	7	–	7
176	(1,512)	54	2,830	1,880	4	1,883	(74)	1,809
–	*–*	*–*	*3,763*	*3,763*	*4*	*3,766*		
–	*–*	*–*	*–*	*332*	*–*	*332*		
176	*–*	*–*	*–*	*176*	*–*	*176*		
–	*(1,512)*	*–*	*–*	*(1,512)*	*–*	*(1,512)*		
–	*–*	*54*	*–*	*54*	*–*	*54*		
–	*–*	*–*	*(933)*	*(933)*	*–*	*(933)*		
–	–	–	–	–	–	–	1,141	1,141
232	**(2,632)**	**180**	**21,139**	**31,636**	**–**	**31,636**	**2,380**	**34,017**

Consolidated financial statements *continued*

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

Zurich Financial Services Ltd, a Swiss corporation, is the holding company of the Group and is listed on the SIX Swiss Exchange. Zurich Financial Services Ltd was incorporated on April 26, 2000, in Zurich, Switzerland. It is recorded in the Commercial Register of the canton of Zurich under its registered address at Mythenquai 2, 8002 Zurich. Due to a change in the Swiss Code of Obligations Zurich Financial Services was renamed to Zurich Financial Services Ltd effective April 2, 2009. Throughout this document Zurich Financial Services Ltd is used consistently even if reference is made to facts that occurred prior to the renaming of the company.

On February 15, 2012 the Board of Directors of Zurich Financial Services Ltd authorized these Consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on March 29, 2012.

1. Basis of presentation

General information

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

The accounting policies applied by the reportable segments are the same as those applied by the Group. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices, with the exception of dividends, realized capital gains as well as gains and losses on transfer of net assets, which are eliminated against equity. For the Consolidated financial statements inter-segment revenues and transfers are eliminated.

Disclosures under IFRS 4 "Insurance Contracts" and IFRS 7 "Financial Instruments: Disclosures" relating to the nature and extent of risks, and capital disclosures under IAS 1 "Presentation of Financial Statements" have been included in the Risk Review on pages 104 to 149, and they form an integral part of the Consolidated financial statements.

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

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

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

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

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

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

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

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

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

Maturity tables have been provided for the following balances: reserves for insurance contracts (tables 17a and 17b in the Risk Review), liabilities for investment contracts (tables 18a and 18b in the Risk Review), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), collateralized loans (table 15), other financial liabilities (table 19.2) and outstanding debt (table 21.3).

Changes to operating segments are shown in note 29.

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

Consolidated financial statements *continued*

The table below summarizes the principal exchange rates that have been used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 112 million and USD 134 million for the years ended December 31, 2011 and 2010, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 130 million and USD (141) million for the years ended December 31, 2011 and 2010, respectively.

Principal exchange rates

Table 1

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

Restatement of the consolidated income statement

Table 1.2

in USD millions, for the year ended December 31, 2010	As reported	Restatement	As restated
Revenues			
Gross written premiums	47,559	–	47,559
Policy fees	2,406	–	2,406
Gross written premiums and policy fees	49,965	–	49,965
Less premiums ceded to reinsurers	(5,683)	–	(5,683)
Net written premiums and policy fees	44,282	–	44,282
Net change in reserves for unearned premiums	1,227	7	1,234
Net earned premiums and policy fees	45,509	7	45,516
Farmers management fees and other related revenues	2,778	–	2,778
Net investment result on Group investments	7,990	–	7,990
Net investment income on Group investments	7,092	–	7,092
Net capital gains/(losses) and impairments on Group investments	898	–	898
Net investment result on unit-linked investments	10,093	–	10,093
Net gain/(loss) on divestments of businesses	38	–	38
Other income	1,442	–	1,442
Total revenues	67,850	7	67,857
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	38,591	–	38,591
Less ceded insurance benefits and losses	(4,106)	–	(4,106)
Insurance benefits and losses, net of reinsurance	34,484	–	34,484
Policyholder dividends and participation in profits, net of reinsurance	10,801	–	10,801
Underwriting and policy acquisition costs, net of reinsurance	8,636	13	8,649
Administrative and other operating expense	7,976	–	7,976
Interest expense on debt	556	–	556
Interest credited to policyholders and other interest	529	–	529
Total benefits, losses and expenses	62,982	13	62,995
Net income before income taxes	4,868	(6)	4,862
Income tax expense	(1,355)	–	(1,355)
attributable to policyholders	(462)	–	(462)
attributable to shareholders	(893)	–	(894)
Net income after taxes	**3,513**	**(6)**	**3,507**
attributable to non-controlling interests	79	–	79
attributable to shareholders	3,434	(6)	3,428
in USD			
Basic earnings per share	23.63	(0.04)	23.59
Diluted earnings per share	23.44	(0.04)	23.40
in CHF			
Basic earnings per share	24.57	(0.04)	24.53
Diluted earnings per share	24.38	(0.05)	24.33

Consolidated financial statements *continued*

Restatement and reclassifications of the consolidated balance sheet

Table 1.3

in USD millions, as of December 31, 2010	As reported	Reclassifcations	Restatement	As revised
Investments				
Total Group investments	195,898	–	–	195,898
Cash and cash equivalents	8,558	–	(376)	8,182
Equity securities	13,729	–	–	13,729
Debt securities	140,254	–	–	140,254
Real estate held for investment	8,274	–	–	8,274
Mortgage loans	11,851	–	–	11,851
Other loans	13,043	–	376	13,419
Investments in associates and joint ventures	188	–	–	188
Investments for unit-linked contracts	107,947	–	–	107,947
Total investments	303,845	–	–	303,845
Reinsurers' share of reserves for insurance contracts	18,809	–	7	18,816
Deposits made under assumed reinsurance contracts	2,832	4	–	2,837
Deferred policy acquisition costs	16,326	–	(45)	16,281
Deferred origination costs	866	–	–	866
Accrued investment income	2,749	–	–	2,749
Receivables and other assets	17,676	(4)	–	17,671
Mortgage loans given as collateral	743	–	–	743
Deferred tax assets	2,067	–	–	2,067
Property and equipment	1,689	–	–	1,689
Goodwill	2,104	–	–	2,104
Other intangible assets	5,954	–	–	5,954
Total assets	**375,661**	**–**	**(38)**	**375,623**
Liabilities				
Reserve for premium refunds	518	–	–	518
Liabilities for investment contracts	50,667	–	–	50,667
Deposits received under ceded reinsurance contracts	1,362	–	–	1,362
Deferred front-end fees	5,626	–	–	5,626
Reserves for insurance contracts	242,646	–	72	242,719
Obligations to repurchase securities	3,330	–	–	3,330
Accrued liabilities	3,011	–	–	3,011
Other liabilities	18,396	–	–	18,396
Collateralized loans	743	–	–	743
Deferred tax liabilities	4,585	–	(31)	4,554
Senior debt	6,453	–	–	6,453
Subordinated debt	5,004	–	–	5,004
Total liabilities	**342,340**	**–**	**42**	**342,382**
Equity				
Shareholders' equity	31,984	–	(79)	31,905
Non-controlling interests	1,337	–	(1)	1,336
Total equity	**33,321**	**–**	**(80)**	**33,241**
Total liabilities and equity	**375,661**	**–**	**(38)**	**375,623**

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early adopted as of January 1, 2011 and relevant for the Group's operations

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

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

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

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

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

In November 2009, as part of the phased project to replace IAS 39 "Financial Instruments: Recognition and Measurement", the IASB issued IFRS 9 "Financial Instruments" which reconsiders the classification and measurement of financial assets. Under the new requirements, the classification of financial assets is based on how the reporting entity manages these assets (business model) and on the contractual cash flow characteristics of the specific financial assets. The measurement of financial assets will be either amortized cost or fair value through profit or loss, whereby for equity instruments an irrevocable election can be made on an instrument-by-instrument basis to record fair value through other comprehensive income (OCI). In October 2010, the IASB completed a subsequent phase of IFRS 9 "Financial Instruments" by carrying forward unchanged most of the requirements in IAS 39 regarding the classification and measurement of financial liabilities. The requirements related to the fair value option for financial liabilities were amended insofar as the effects of changes in a liability's credit risk will be recorded in OCI rather than through the income statement, unless this presentation creates an accounting mismatch. Also, the IASB has carried forward to IFRS 9 the existing IAS 39 requirements related to the derecognition of financial assets and financial liabilities. In December 2011 the IASB issued an amendment to IFRS 9 that defers its mandatory effective date from January 1, 2013 to January 1, 2015, with earlier adoption permitted. The amendment also provides relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9 and requires additional transition disclosures to describe the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The Group plans to assess the impact of this standard on its financial statements in conjunction with the revised standard IFRS 4 "Insurance Contracts". Changes to the IFRS timetable may have an impact on this approach.

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

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

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

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

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

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

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

3. Summary of significant accounting policies

The principal accounting policies applied in these Consolidated financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

a) Consolidation principles

The Group's Consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Financial Services Ltd and its subsidiaries. A subsidiary is an entity in which Zurich Financial Services Ltd owns, directly or indirectly, more than 50 percent of the outstanding voting rights, or which it otherwise has the power to control. The results of subsidiaries acquired are included in the Consolidated financial statements from the date of acquisition. The results of subsidiaries that have been divested during the year are included up to the date control ceased. All significant intercompany balances, profits and transactions are eliminated in full.

Acquisition transactions with non-controlling interests are accounted for as transactions with parties external to the Group. The effect of transactions with non-controlling interests are recorded in equity if there is no change in control.

Investments in associates and partnerships where the Group has the ability to exercise significant influence but not control, as well as joint ventures where there is joint control, are accounted for using the equity method. Significant influence is presumed to exist when the Group owns, directly or indirectly, between 20 percent and 50 percent of the voting rights. Under the equity method of accounting, investments in associates, partnerships or joint ventures are initially recognized at cost, including attributable goodwill, and adjusted thereafter for post-acquisition changes in the Group's share of the net assets of the investment.

The Consolidated financial statements are prepared as of December 31 based on individual company financial statements at the same date. In some cases information is included with a time lag of up to three months. The effects on the Group's Consolidated financial statements are not material.

b) Foreign currency translation and transactions

Foreign currency translation

In view of the international operations of the Group, there are many individual entities with different functional currencies. A functional currency is the currency of the primary economic environment in which an entity operates. Therefore, a common presentation currency is required. Due to the Group's economic exposure to the U.S. dollar (USD), the presentation currency of the Group has been determined to be the USD. Assets and liabilities of Group companies with functional currencies other than USD are translated into the presentation currency at end-of-period exchange rates, while income statements and statements of cash flows are translated at average exchange rates for the period. The resulting translation differences are recorded directly in other comprehensive income (OCI) as cumulative translation adjustments.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rate at the date of the transaction or, for practical reasons, a weighted average rate, if exchange rates do not fluctuate significantly. Foreign currency monetary items and foreign currency non-monetary items, which are carried at fair value, are translated at end-of-period exchange rates. Foreign currency non-monetary items which are carried at historical cost are translated at historical exchange rates. The resulting foreign currency differences are recorded in income, except for the following:

- when gains or losses on non-monetary items measured at fair value, such as available-for-sale equity securities, are recognized directly in OCI, any foreign currency component included in the gains or losses is also recognized directly in OCI;
- when changes in the fair value of monetary items denominated in foreign currency, such as debt securities, that are classified as available-for-sale, are analyzed between foreign currency translation differences resulting from changes in the amortized cost of the security and other fair value changes in the security. Foreign currency translation differences related to changes in amortized cost are recognized in income, and those related to other changes in fair value are recognized in OCI; and
- foreign currency translation differences arising on monetary items that form part of net investments in foreign operations are included directly in OCI as cumulative foreign currency translation adjustment.

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

Classification

Insurance and reinsurance contracts are those contracts that transfer significant insurance risk. These contracts may also transfer financial risk. Significant insurance risk is defined as the possibility of paying significantly more in a scenario where the insured event occurs than in a scenario where the insured event does not occur. Scenarios considered are those that have commercial substance.

A number of insurance and investment contracts contain DPF which entitle the contract holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- the amount or timing of which is contractually at the discretion of the Group; and
- that are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
  - the net income of the company, fund or other entity that issues the contract.

The Group applies the same accounting policies for the recognition and measurement of obligations arising from insurance contracts and from investment contracts with DPF. These recognition and measurement criteria apply to obligations arising from the contract, deferred acquisition costs and other related intangibles.

The Group also issues products containing an embedded option that entitle the policyholder to switch all or part of the current and future invested funds into another product issued by the Group. Where this results in the reclassification of

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an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are also reclassified and are accounted for in accordance with the accounting policy to be applied to the new product on a prospective basis. As a consequence, no gain or loss is recognized as a result of the reclassification of a contract from investment to insurance.

Once a contract has been classified as an insurance contract, no reclassification can be made subsequently.

Premiums

General insurance

Premiums from the sale of general insurance products are recorded when written and normally are accreted to earnings on a pro-rata basis over the term of the related policy coverage. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are recognized over the period of risk in proportion to the amount of insurance protection provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage.

Life insurance

Premiums from traditional life insurance contracts, including participating contracts and annuity policies with life contingencies, are recognized as revenue when due from the policyholder. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies. Moreover, for single premium and limited pay contracts, premiums are recognized in income when due with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from investment type insurance contracts such as universal life, unit-linked and unitized with-profits contracts are reported as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration and surrenders during the period. Front-end fees are deferred and recognized over the estimated life of the contracts.

Cash flows from certain universal life-type contracts in the Group's Spanish operations are recognized as gross written premiums and insurance benefits and losses and not as deposits.

Reserves for losses and loss adjustment expenses

Losses and loss adjustment expenses are charged to income as incurred. Reserves for losses and loss adjustment expenses represent the accumulation of estimates for ultimate losses and include provisions for losses incurred but not yet reported (IBNR). The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. The Group does not discount its loss reserves, other than for settled claims with fixed payment terms. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed.

Reserves for life benefits

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

The reserves for life benefits for participating traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions taking into account guaranteed mortality and interest rates.

The reserves for life benefits for other traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions including mortality, persistency, expenses and investment return including a margin for adverse deviations. These assumptions are locked-in at inception and are regularly assessed as part of the liability adequacy testing over the period of the contract.

For traditional life insurance policies, interest rate assumptions can vary by country, year of issuance and product. The mortality rate assumptions are based on published mortality tables and are adjusted for actual experience by geographic area and modified to allow for variations in policy terms. The surrender assumptions are based on actual experience by geographic area and modified to allow for variations in policy terms. Future life policyholders' benefits include the value of accumulated declared bonuses or dividends that have vested to policyholders.

Policyholders' contract deposits represent the estimated policy benefits for investment type insurance contracts invested in non unit-linked funds. This liability comprises the accumulation of premium received less charges plus declared policyholder dividends.

Where unrealized gains or losses on the revaluation of available-for-sale assets arise they are recorded directly in OCI in accordance with the Group's accounting policy for such assets, with the corresponding adjustments to the reserves for life benefits and related assets also recognized directly in OCI.

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

For products containing guarantees in respect of minimum death benefits (GMDB), retirement income benefits (GRIB) and/or annuitization options (GAO), additional liabilities are recorded in proportion to the receipt of the contracted revenues coupled with a loss adequacy test taking into account policyholder behavior and current market conditions.

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

Discretionary participation features (DPF)

For products containing DPF the amount of the DPF is deemed to be the investment return on all related assets where the apportionment between the shareholder and the policyholder has not yet been determined. The liability includes certain elements of net unrealized gains/(losses) and retained earnings attributable to the DPF, based on the mandated rates applied to these gains and earnings on the assumption that they had been realized as of the balance sheet date.

The minimum mandated amounts, which are to be paid to policyholders plus any declared additional benefits, are recorded in liabilities. The remainder of any undeclared discretionary balances are not included in the liability but are included in OCI until such time as the discretionary element of a bonus is determined and declared.

Deferred acquisition costs (DAC)

Costs that vary with and are directly related to the acquisition of new and renewal business, including for example commissions and certain underwriting and policy issue expenses, are deferred and subsequently amortized over a defined period. Certain direct response marketing costs for efforts which solicit a direct response that is specific and quantifiable are also deferred, when it can be demonstrated that such marketing results in future economic benefits.

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

General insurance

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

Life insurance

DAC for traditional participating life insurance contracts is amortized over the life of the contracts based on estimated gross margins expected to be realized over the life of the contract. Estimated gross margins are updated for actual and anticipated future experience using the latest revised interest rate for the remaining benefit period. Resultant deviations are reflected in income.

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

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

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

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

Liability adequacy tests

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

General insurance

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

Life insurance

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

Reinsurance

The Group's insurance subsidiaries cede risk in the normal course of business in order to limit the potential for losses arising from certain exposures. Reinsurance does not relieve the originating insurer of its liability. Certain Group insurance companies assume reinsurance business incidental to their normal business.

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

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

Reinsurance assets are assessed for impairment on a regular basis for any events that may trigger impairment. Triggering events may include legal disputes with counterparties, changes in capital and surplus levels or changes in credit ratings of a reinsurer, and historical experience regarding collectibility from specific reinsurers. Impairment is considered to have occurred if it is probable that the Group will not be able to collect the amounts expected from reinsurers. If a reinsurance asset is impaired, the carrying amount of the asset is reduced to its recoverable amount, through the use of an allowance account, and the amount of the impairment loss is recognized in income. If a decrease in the impairment loss can be related objectively to an event occurring after the impairment loss was initially recognized, the impairment loss is reversed through income.

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

d) Liabilities for investment contracts (without DPF)
The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

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

Unit-linked investment contracts
These represent portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks related to the investments. The liabilities are carried at fair value, with fair value being determined by reference to the underlying financial assets. The related assets for unit-linked investment contracts are classified as designated at fair value through profit or loss in order to reduce measurement inconsistencies. If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never recorded at less than the amount payable on surrender, discounted for the required notice period, where applicable.

Changes in the fair value of the assets and liabilities are recorded in income. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against the policyholders' account balances are included in policy fee revenue.

The liability held for unit-linked contracts with capital units is measured at the funded value of those units. At the date of issue, the difference between the funded and unfunded value of units is treated as deferred revenue.

Investment contracts at amortized cost
Liabilities for investment contracts with fixed and guaranteed terms are measured at amortized cost, using the effective interest rate method. Transaction costs are included in the calculation of the effective yield. As of each reporting date, the Group re-estimates the expected future cash flows and re-calculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the original effective interest rate for the financial liability. Any adjustment is immediately recognized as income or expense.

Deferred origination costs (DOC)
The costs of acquiring new investment contracts with investment management services, such as commissions and other incremental expenses directly related to the issuance of each new contract, are capitalized and amortized in line with the revenue generated by providing investment management services. DOC is tested for recoverability annually.

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

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

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

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

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

Available-for-sale financial assets
Available-for-sale financial assets are financial assets that are either designated as such or are not classified in any of the other categories.

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

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

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and those designated at fair value through profit or loss at inception.

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

Financial assets irrevocably designated at inception at fair value through profit or loss are mainly financial assets backing unit-linked insurance contracts, unit-linked investment contracts and certain life insurance contracts with participation features. The designation of these assets at fair value through profit or loss eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or from recognizing the resultant gains and losses on them on a different basis to the liabilities.

Financial assets at fair value through profit or loss are carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value are recognized in income within net capital gains/(losses) on investments and impairments, in the period in which they arise.

Held-to-maturity investments
Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables, and for which the Group has the positive intention and ability to hold to maturity.

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

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

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

Other items
Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments that are readily convertible into cash and are subject to an insignificant risk of change in fair value, for example, short-term investments with maturities of three months or less from the date of acquisition. Cash and cash equivalents also includes cash received as collateral for securities lending. Cash and cash equivalents are stated at face value.

Real estate held for investment is initially recorded at cost (including transaction costs) and is subsequently measured at fair value with changes in fair value recognized in income. Fair value is based on active market prices, adjusted if necessary for differences in the nature, location or condition of the property. If active market prices are not available, alternative valuation methods are used, for example discounted cash flow projections. Valuations are performed annually by internal valuation specialists and generally at least once every three years by external valuers. The gain or loss on disposal of real estate held for investment is the difference between the net proceeds received and the carrying amount of the investment and is recognized in the consolidated income statement when the disposal is completed.

Impairment of financial assets (excluding derivative financial instruments)

General
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence of impairment exists if one or more loss events occurred after the initial recognition of the asset which impact the estimated future cash flows such as:

a) significant financial difficulty of the issuer or debtor;

b) a breach of contract, such as a default or delinquency in payments;

c) it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganization;

d) the disappearance of an active market for that financial asset because of financial difficulties; or

e) observable data indicating a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in that group, including:

- adverse changes in the payment status of issuers or debtors in that group; or

- national or local economic conditions that correlate with defaults relating to the assets in that group.

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

Objective evidence of impairment exists for an available-for-sale equity security when its fair value is below the weighted-average cost by a significant amount. Impairment thresholds are determined quarterly on the basis of the underlying price volatility of securities within the various equity markets in which the Group invests (such as North America, UK, Switzerland, other European countries, Asia Pacific). Additionally, the Group considers an equity security to be impaired when its fair value has been below the weighted-average cost for a prolonged period of 24 consecutive months or longer.

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

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

Objective evidence of impairment exists if it is probable that the Group will not be able to collect principal and/or interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount of held-to-maturity investments, loans or receivables is reduced through the use of an allowance account, and the movement in the impairment allowance is recognized as an impairment loss in income. The impairment allowance of financial assets carried at amortized cost is measured as the difference between the amortized cost of the assets and the present value of estimated future cash flows, calculated using the original effective interest rate, for fixed rate financial assets, or current effective interest rate, for variable rate financial assets. The impairment allowance for mortgage loans and receivables is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for known or anticipated trends in the group of financial assets or individual accounts. If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through income. The amount of reversal is limited so that it does not result in a carrying amount exceeding the amortized cost that would have been calculated at the date of reversal had the impairment not been previously recognized.

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f) Derivative financial instruments and hedge accounting

Derivative financial instruments held by the Group include interest rate, currency and total return swaps, futures, forwards and option contracts, all of which derive their value mainly from changes in underlying interest rates, foreign exchange rates, commodity values or equity instruments. A derivative contract may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardized and include futures and certain option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, caps, floors and swaps. Derivative financial instruments are subject to various risks similar to those related to the underlying financial instruments, including market, credit and liquidity risk.

In addition to the derivative financial instruments described above, the Group enters into contracts that are not considered derivative financial instruments in their entirety but which include embedded derivative features. Such embedded derivatives are assessed at inception of the contract and, depending on their characteristics, are measured and presented as separate derivative financial instruments.

Derivative financial instruments, except those designated under a qualifying hedge relationship are classified as held for trading assets or liabilities and carried at fair value on the balance sheet with changes in fair value recognized in income.

Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for the underlying instrument, time to expiry, correlations, yield curves, prepayment rates and volatility of the underlying instrument. Such inputs used in pricing models are generally market observable or derived from market observable data.

Derivative financial instruments that qualify for hedge accounting

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

- fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability;

- cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction; or

- hedges of the net investment in a foreign operation.

To qualify for hedge accounting, the relationship of the hedging instrument to the underlying transaction must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed in order to determine whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. If these conditions are not met, then the relationship does not qualify for hedge accounting, in which case the hedging instrument and the hedged item are reported independently in accordance with the respective accounting policy as if there was no hedging designation. Where hedge accounting conditions are met, the accounting treatments are as follows:

Fair value hedges

Gains or losses from re-measuring the derivatives that are designated and qualify as fair value hedges are recognized immediately in the same line item of the consolidated income statement as the offsetting change in fair value of the risk being hedged. Offsetting gains or losses on the fair value of the hedged item attributable to the hedged risk are adjusted against the carrying amount of the hedged item and recognized in income.

Cash flow hedges

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

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

g) Borrowings
Borrowings (debt issued) are recognized initially at fair value of the consideration received, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in income over the period of the borrowing using the effective interest rate method.

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

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

h) Offsetting financial assets and financial liabilities
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to settle the asset and settle the liability simultaneously.

i) Derecognition of financial assets and liabilities
Financial assets are derecognized when the right to receive cash flows from the assets has expired, or when the Group has transferred its contractual right to receive the cash flows from the financial asset, and either

- substantially all the risks and rewards of ownership have been transferred; or

- substantially all the risks and rewards have not been retained or transferred, but control has been transferred.

Financial liabilities are derecognized when they are extinguished, which is when the obligation is discharged, cancelled or has expired.

Securities lending
Certain entities within the Group participate in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of the securities lending agreements, the Group retains substantially all the risks and rewards of ownership of these loaned securities, and also retains contractual rights to the cash flows therefrom. These securities are therefore not derecognized from the Group's balance sheet. Cash received as collateral for loaned securities is recorded as an asset and a corresponding liability is established.

Repurchase and reverse repurchase transactions
Securities sold under agreements to repurchase at a specified later date (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) are accounted for as collateralized financing transactions.

The securities delivered under a repurchase agreement are not derecognized from the balance sheet when all or substantially all of the risk and rewards are retained. The proceeds received are reported as a liability under obligation to repurchase securities. Interest expense is charged to income using the effective interest rate method over the life of the agreement.

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

In cases such as events of default by a third party, it may be determined that the risks and rewards of ownership over the collateral have been obtained by the Group. At such point in time, the securities held under the reverse repurchase agreement would be recognized on the balance sheet at fair value and the original receivable as collateral derecognized. Any shortfall is recorded as a loss in income.

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j) Property and equipment
Own use property is defined as property held by the Group for use in the supply of services or for administrative purposes. Buildings held for own use and equipment are carried at cost less accumulated depreciation and any accumulated impairment loss. These assets are depreciated usually on a straight-line basis to income over the following estimated useful lives:

- buildings 25 to 50 years;
- furniture and fixtures five to ten years; and
- computer equipment three to six years.

Land held for own use is carried at cost less any accumulated impairment loss.

Maintenance and repair costs are charged to income as incurred. The costs of IT systems purchased from third party vendors are capitalized and amortized over expected useful lives. Gains and losses on the disposal of property and equipment are determined by comparing the proceeds with the carrying amounts and are recorded in other income or administrative and other operating expense, respectively.

Assets that have an indefinite useful life, for example land, are not subject to amortization and are tested regularly for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value-in-use. Assets are grouped on a cash generating unit (CGU) level if the recoverable amount cannot be separately determined.

k) Intangible assets
Intangible assets include goodwill, present value of future profits from acquired insurance contracts, attorney-in-fact relationships, distribution agreements and other intangible assets, such as customer relationships and contracts, affinity partnerships, computer software licenses and capitalized software development costs.

Intangible assets acquired in a business combination are recognized separately from goodwill at the acquisition date if their fair values can be measured reliably, the assets are separable or arise from contractual or other legal rights, and they are controlled by the entity.

The useful lives of customer relationships and contracts, affinity partnerships extend up to 30 years and are estimated based on the period of time over which they are expected to provide economic benefits after taking into account all relevant economic and legal factors such as usage of the assets, typical product life cycles, potential obsolescence, stability of the industry, competitive position and the period of control over the assets.

Other intangible assets with definite lives are carried at cost less accumulated amortization and impairments. They are amortized using the straight-line method over their useful lives and reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Other intangible assets with indefinite lives are not subject to amortization but are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recorded in income when the carrying value of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less selling costs of an asset and its value-in-use.

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

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

Goodwill on the acquisition of associates and jointly controlled entities is included in the value of equity method accounted investments and is tested for impairment as part of the overall measurement of the carrying amount of those investments.

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

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

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

Attorney-in-fact relationships (AIF)

The AIF reflects the ability of the Group to generate future revenues based on the Group's relationship with the Farmers Exchanges, which are managed but not owned by Farmers Group Inc. (FGI), a wholly owned subsidiary of the Group. In determining that these relationships have an indefinite useful life, the Group considered the organizational structure of inter-insurance exchanges, under which subscribers exchange contracts with each other and appoint an attorney-in-fact to provide non-claims management services, and the historical AIF between FGI and the Farmers Exchanges.

Distribution agreements

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

Software

Costs incurred during the development phase of computer software are capitalized when the following recognition criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete and there is an ability to use or sell the software product;
- the software is expected to generate future economic benefits;
- sufficient resources are available to complete the development of the software; and
- expenditures can be reliably measured.

Costs associated with research and maintenance of computer software are expensed as incurred. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

The useful lives of computer software licenses and capitalized software development costs generally do not exceed five years. In some exceptional circumstances, capitalized software development costs may be amortized over a period of up to ten years, taking into account the effects of obsolescence, technology, competition and other economic and legal factors.

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l) Provisions, contingent liabilities, commitments and financial guarantees

Provisions, contingent liabilities, commitments and financial guarantees are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of such an obligation. Provisions are discounted when the effect of the time value of money is considered material.

Restructuring provisions comprise employee termination costs and costs related to onerous contracts. Restructuring provisions are recognized when the Group has a present obligation as a result of a detailed formal plan, which has been announced to those affected and the amount can be reasonably estimated.

m) Treasury shares

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

n) Other revenue recognition

Farmers management fees

Fees for non-claims related management services provided by FGI to the Farmers Exchanges are calculated primarily as a percentage of gross premiums earned by the Farmers Exchanges. FGI provides non-claims related management services to the Farmers Exchanges, including risk selection, preparation and mailing of policy forms and invoices, premium collection, management of the investment portfolios and certain other administrative and managerial functions. The Farmers Exchanges are directly responsible for their own claims functions, including the settlement and payment of claims and claims adjustment expenses, as well as for the payment of agent commissions and bonuses and the payment of premium and income taxes.

Other fees and commission income

Revenues from investment management and distribution fees are based on contractual fee arrangements applied to assets under management and recognized as earned when the service has been provided. For practical purposes, the Group recognizes these fees on a straight-line basis over the estimated life of the contract.

The Group charges its customers for asset management and other related services using the following approaches:

- Front-end fees charged to the customer at inception are used particularly for single premium contracts. The consideration received is deferred as a liability and recognized over the life of the contract on a straight-line basis.

- Regular fees charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds are billed in advance and recognized on a straight-line basis over the period in which the service is rendered. Fees charged at the end of the period are accrued as a receivable and are offset against the financial liability when charged to the customer.

o) Net investment income

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

Investment income

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

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

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

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

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

p) Employee benefits
Share-based compensation and cash incentive plans
The Group operates long-term incentive plans which comprise the allocation of a target number of shares and/or share options. With effect from 2011, share option grants were discontinued.

Under the Group's equity-settled share-based compensation plans, the fair value of the employee services received in exchange for the grant of shares and/or previously options is recognized as an expense in income over the vesting period, with a corresponding amount recorded in additional paid-in capital.

The total amount to be expensed over the period before the vesting date is determined by reference to the fair value of the shares and/ or previously options granted. Non-market vesting conditions (for example, profitability and revenue growth targets) are included in assumptions to determine the number of shares and/or previously options that are expected to be issued or become exercisable. At each balance sheet date, the Group revises its estimates of the number of shares and/or options that are expected to be issued or become exercisable. It recognizes the impact of the revision to original estimates, if any, in income with a corresponding adjustment to additional paid-in capital. However, no subsequent adjustment to total additional paid-in capital is made after the vesting date.

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

As the fair value of the options which the Group uses for its employee schemes cannot be compared with those in the market, the Group estimates the fair value using the Black-Scholes model. This model requires inputs such as share price, exercise price, implied volatility, risk-free interest rate, expected dividend rate and the expected life of the option.

Retirement benefits
Operating companies in the Group provide employee retirement benefits through both defined benefit plans and defined contribution plans. The assets of these plans are generally held separately from the Group's assets in trustee-administered funds. Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Group's expense relating to these plans is accrued over the employees' service periods based upon the actuarially determined cost for the period.

Actuarial gains and losses are recognized in full in the period in which they occur and are presented on a separate line in the consolidated statement of comprehensive income. Actuarial gains and losses result from experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred during the accounting period), changes in actuarial assumptions since the previous balance sheet date, and differences between the expected and actual returns on plan assets.

Past service costs represent the change in the defined benefit obligation following plan amendments that relate to employee service in prior periods. To the extent that past service costs are vested, they are recognized immediately. Unrecognized past service costs represent past service costs that have not yet vested, and are recognized on a straight-line basis over the average vesting period.

Other post-employment benefits
Other post-employment benefits, such as medical care and life insurance, are also provided for certain employees and are primarily funded internally. Similar to retirement benefits, the cost of such benefits is accrued over the service period of the employees based on the actuarially determined cost for the period.

q) Leases
The Group enters into lease contracts, predominantly of property and equipment, as a lessor and a lessee. The terms and conditions of these contracts are assessed and the leases are classified as operating leases or finance leases according to their economic substance. Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership of the underlying asset are retained by the lessor are classified as operating leases.

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Payments made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the period of the lease, unless another systematic basis is representative of the time pattern of the user's benefit even if the payments are not on that basis.

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

r) Income taxes

The Group provides current tax expense according to the tax laws of each jurisdiction in which it operates. Deferred income taxes are recognized using the asset and liability method. Deferred income taxes are recorded for temporary differences, which are based on the difference between financial statement carrying amounts and income tax bases of assets and liabilities using enacted income tax rates and laws. Losses for tax purposes are treated as deferred tax assets to the extent it is probable that they can be utilized against future taxable income in the respective jurisdictions.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them.

Taxes payable by either the holding company or its subsidiaries on expected distributions to the holding company of the profits of subsidiaries are not recognized as deferred income taxes unless a distribution of those profits is intended in the foreseeable future.

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

4. Critical accounting judgments and estimates

Critical accounting estimates are those which involve the most complex or subjective judgments or assessments, and relate to general insurance and life insurance reserves, the determination of fair value for financial assets and liabilities, impairment charges, the determination of fair values of assets and liabilities attributable to business combinations, deferred policy acquisition costs, deferred taxes, employee benefits and share-based compensation and cash incentive plans. In each case, the determination of these items requires management to make informed judgments based on information and financial data that may change in future periods. Because of the uncertainties involved in such judgments, actual outcomes and results may differ from assumptions and estimates made by management.

a) Reserves for losses and loss adjustment expenses

The Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the Group's general insurance products and the run-off of its former third party reinsurance operations. These reserves represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the balance sheet date. The Group establishes its reserves by product line, type and extent of coverage and year of occurrence. There are two categories of loss reserve: reserves for reported losses and reserves for IBNR losses. Additionally, reserves are held for loss adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

The Group's reserves for reported losses and loss adjustment expenses are based on estimates of future payments to settle reported general insurance claims and claims from the run-off of its former third party reinsurance operations. The Group bases such estimates on the facts available at the time the reserves are established. These reserves are generally established on an undiscounted basis to recognize the estimated costs of bringing pending claims to final settlement. The reserve calculation takes into account inflation, as well as other factors that can influence the amount of reserves required, some of which are subjective and some of which are dependent on future events. In determining the level of reserves, the Group considers historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions, economic conditions and public attitudes may affect the ultimate cost of settlement and, as a result, the Group's estimation of reserves. Between the reporting and final settlement of a claim circumstances may change, which may result in changes to established reserves. Items such as changes in law and interpretations of relevant case law, results of litigation, changes in medical costs, as well as costs of vehicle and home repair materials and labor rates can substantially impact ultimate settlement costs. Accordingly, the Group reviews and re-evaluates claims and reserves on a regular basis. Amounts ultimately paid for losses and loss adjustment expenses can vary significantly from the level of reserves originally set.

The Group establishes IBNR reserves, generally on an undiscounted basis, to recognize the estimated cost of losses for events which have already occurred but which have not yet been notified. These reserves are established to recognize the estimated costs required to bring such claims to final settlement. As these losses have not yet been reported, the Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The Group also uses reported claim trends, claim severities, exposure growth, and other factors in estimating its IBNR reserves. These reserves are revised as additional information becomes available and as claims are actually reported.

The time required to learn of and settle claims is an important consideration in establishing the Group's reserves. Short-tail claims, such as those for automobile and property damage, are normally reported soon after the incident and are generally settled within months following the reported incident. Long-tail claims, such as bodily injury, pollution, asbestos and product liability, can take years to develop and additional time to settle. For long-tail claims, information concerning the event, such as the required medical treatment for bodily injury claims and the measures and costs required to clean up pollution, may not be readily available. Accordingly, the reserving analysis of long-tail lines of business is generally more difficult and subject to greater uncertainties than for short-tail claims.

Since the Group does not establish reserves for catastrophes in advance of the occurrence of such events, these events may cause volatility in the levels of its incurred losses and reserves, subject to the effects of reinsurance recoveries. This volatility may also be contingent upon political and legal developments after the occurrence of the event.

The Group uses a number of accepted actuarial methods to estimate and evaluate the amount of reserves recorded. The nature of the claim being reserved for and the geographic location of the claim influence the techniques used by the Group's actuaries. Additionally, the Group's Corporate Center actuaries perform periodic reserve reviews of the

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Group's businesses throughout the world. Management considers the results of these reviews and adjusts its reserves for losses and loss adjustment expenses, where necessary.

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

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

The reserves for future life policyholders' benefits and policyholders' contract deposits and other funds contain a number of assumptions regarding mortality (or longevity), lapses, surrenders, expenses and investment returns. These assumptions are determined with reference to past experience adjusted for new trends, current market conditions and future expectations. As such the liabilities for future life policyholders' benefits and policyholders' contract deposits may not represent the ultimate amounts paid out to policyholders. For example:

- The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty arises because of the potential for pandemics and wide-ranging lifestyle changes, such as changes in eating, smoking and exercise habits, which could result in earlier deaths for age groups in which the Group has significant exposure to mortality risk.

- For contracts that insure the risk of longevity, such as annuity contracts, an appropriate allowance is made for people living longer. Continuing improvements in medical care and social conditions could result in further improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

- Under certain contracts, the Group has offered product guarantees (or options to take up product guarantees), including fixed minimum interest rate or mortality rate returns. In determining the value of these options and/or benefits, estimates have been made as to the percentage of contract holders that may exercise them. Changes in investment conditions could result in significantly more contract holders exercising their options and/or benefits than has been assumed.

- Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

- Assumptions are determined with reference to current and historical client data, as well as industry data. Interest rate assumptions reflect expected earnings on the assets supporting the future policyholder benefits. The information used by the Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions, available experience studies and profitability analysis.

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

c) Fair value of financial assets and liabilities

As described in note 3, all financial assets and liabilities are recorded initially at fair value. Subsequently, available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and derivative financial instruments are carried at fair value, as of the reporting date. All other financial instruments are carried at amortized cost, with their fair values disclosed in note 26.

The determination of fair value for financial assets and liabilities is generally based on quoted market prices or broker/dealer quotations. If quoted prices are not readily available, then fair values are derived from valuation models (for example, discounted cash flow models) that estimate the amounts for which the respective financial instruments could be transferred under current market conditions.

Fair values of debt and equity securities are based on quoted market prices. If such quoted prices are not available, then fair values are estimated on the basis of information from external pricing providers or internal pricing models (for example, discounted cash flow models or other recognized valuation techniques).

Discounted cash flow models are used for mortgage and other loans and long term receivables. The discount rates used in these models are either current interest rates charged by the Group on these instruments or a calculated rate that reflects the return a market participant would expect to receive on instruments with similar remaining maturity, cash flow pattern, currency, credit risk, collateral and interest rates.

Fair values of debt instruments issued by the Group are estimated using discounted cash flow models based on the Group's current incremental borrowing rates for similar types of borrowings, with maturities consistent with those remaining for the debt instruments being valued.

Fair values of derivative instruments are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for underlying instruments, time to expiry, correlations, yield curves, prepayment rates and volatility of underlying instruments. Such inputs used in pricing models are generally market observable or derived from market observable data.

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

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

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

The Group employs third party asset managers who manage a significant percentage of assets on behalf of the Group, but are not responsible for determining the fair values reported in the consolidated financial statements. Investment accounting and operations functions, are completely independent from those responsible for buying and selling the assets, and are responsible for receiving, challenging and verifying values provided by third party pricing providers to ensure that fair values are reliable and comply with applicable accounting and valuation policies. The quality control procedures used depend on the nature and complexity of the invested assets and include regular reviews of valuation techniques and inputs used by pricing providers (for example, default rates of collateral for asset backed securities), variance and stale price analysis and comparisons with fair values of similar instruments and with alternative values obtained from asset managers and brokers.

In cases where significant reliance is placed on an independent pricing provider, the Group's policy is to engage with that provider to ensure that proper processes and controls are in place to guarantee that the price quality meets the high standards that the Group expects. In addition, the Group's policy is to ensure that independently sourced prices are determined based on valuation techniques that incorporate all factors that market participants would consider in setting a price and are consistent with best practice methodologies for pricing financial instruments. Such models make maximum use of market inputs such as benchmark yields, reported trades and broker/dealer quotes. The Group holds certain asset classes that are not actively traded, in particular hedge funds and private equity investments. Fair values of such instruments are based on regular reports from the issuing hedge funds and private equity funds. Performance of these investments and determination of their fair value are monitored closely by the Group's in-house investment professionals.

Refer to notes 6, 7 and 26 for further information on the fair value of financial assets and liabilities.

d) Impairment of assets

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

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

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For held-to-maturity investments and loans and receivables, the recoverable amount is determined by reference to the present value of the estimated future cash flows. The carrying amount of mortgage loans and receivables is reduced through an impairment allowance determined using an analytical method based on knowledge of each loan group or receivable. The method is normally based on historical statistics, adjusted for known or anticipated trends in the group of financial assets or individual accounts. As judgment is inherent in such impairment reviews, actual outcomes could vary significantly from the forecast future cash flows.

For goodwill the recoverable amount is the higher of its fair value less costs to sell and its value-in-use. Fair value at a CGU level is determined, considering quoted market prices, current share values in the market place for similar publicly traded entities, and recent sale transactions of similar businesses. Value-in-use is determined using the present value of estimated future cash flows expected to be generated from or used by the CGU. Cash flow projections are based on financial budgets, which are approved by management, typically covering a three-year period or if appropriate, a longer period. Cash flows beyond this period are extrapolated using amongst others estimated perpetual growth rates. The discount rates applied reflect the respective risk free interest rate adjusted for the relevant risk factors to the extent, they have not already been considered in the underlying cash flows.

The recoverable amount for General Insurance intangible assets reflecting distribution agreements is determined on the basis of value-in-use calculations. These calculations use cash flow projections in line with the terms and conditions of the underlying distribution agreements. For Global Life business distribution agreements, the recoverable amount is determined based on projected cash flows and discount rates consistent with the data used for actuarial valuations and embedded value calculations.

The recoverable amount of the intangible assets with an indefinite life related to the Farmers segment (i.e. attorney-in-fact (AIF) relationships and goodwill) is determined on the basis of value-in-use calculations. These calculations use cash flow projections based on business plans and the development of surplus in the Farmers Exchanges. Business plans are approved by management and typically cover a three-year period. Cash flows beyond that three-year period are extrapolated for 20 years assuming zero growth.

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

In addition to the range of discount rates the table below sets out the perpetual nominal growth rates beyond the planning period which are dependent on country specific growth rate and inflation expectations.

Table 4.1

Overview of discount and perpetual growth rates

	Range of discount rates in % 2011	Range of discount rates in % 2010	**Perpetual nominal growth rate in % 2011**	Perpetual nominal growth rate in % 2010
Western Europe	4.8–10.3	1.3–8.0	0.0–2.5	0.0–5.0
Turkey	9.6–16.0	8.4–15.1	6.0	6.0
Brazil	9.8–11.5	7.3–10.5	2.0	3.5
Farmers	8.3	6.4	0.0	2.0

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

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

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

e) Fair values of assets and liabilities attributable to business combinations
Acquired businesses are accounted for using the purchase method of accounting which requires that the assets acquired and liabilities assumed are recorded at the date of acquisition at their respective fair values. Fair values of financial assets and liabilities and insurance liabilities are determined as described in the respective sections above.

Fair values of identifiable intangible assets are based on market-participant assumptions and applicable valuation techniques, depending on the nature of the assets valued. For customer relationship and contract intangibles, including bancassurance agreements, the multi-period excess earnings or cash flow method is applied, using future cash flows expected to be generated from such assets discounted at applicable market rates. For information technology intangibles the replacement cost method is generally applied.

See note 5 for further information on the fair value of assets and liabilities attributable to business combinations.

f) Deferred policy acquisition costs
Deferred policy acquisition costs generally consist of commissions, underwriting expenses and policy issuance costs. The amount of acquisition costs to be deferred is dependent on judgments as to which issuance costs are directly related to and vary with the acquisition. The related asset is amortized over the premium earning pattern for non-life and certain traditional life products. For most life products, amortization is based on the estimated profitability of the contract throughout its life. The estimation of profitability considers both historical experience and future expectations as regards assumptions, such as expenses, lapse rates or investment income.

See note 12 for further information on deferred policy acquisition costs.

g) Deferred taxes
Deferred tax assets are recognized if sufficient future taxable income, including income from the reversal of existing taxable temporary differences and available tax planning strategies, is available for realization. The utilization of deferred tax assets arising from temporary differences depends on the generation of sufficient taxable profits in the period in which the underlying asset or liability is recovered or settled. The utilization of deferred tax assets arising from unused tax losses or tax credits depends on the generation of sufficient taxable profits before the unused tax losses or tax credits expire. As of each balance sheet date, management evaluates the recoverability of deferred tax assets and if it is considered probable, that all or a portion of the deferred tax asset will not be utilized, then a valuation allowance is recognized.

See note 20 for further information on deferred taxes.

h) Employee benefits
The Group provides defined benefit plans and other post-employment plans. In assessing the Group's liability for these plans, critical judgments include estimates of mortality rates, rates of employment turnover, disability, early retirement, discount rates, expected long-term rates of return on plan assets, future salary increases, future pension increases and increases in long-term healthcare costs. The discount rate for significant plans is based on a yield curve approach. The Group sets the discount rate by creating a hypothetical portfolio of high quality corporate bonds for which the timing and amount of cash outflows approximate the estimated payouts of the defined benefit plan. These assumptions may differ from actual results due to changing economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in variability of pension income or expense recorded in future years.

See note 23 for further information on employee benefits.

i) Share-based compensation and cash incentive plans
The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. Share-based compensation plans include plans under which shares and, until 2010, options to purchase shares, based on the performance of the businesses, are awarded. The fair value of options granted is estimated using the Black-Scholes option pricing model. The key factors involve, but are not limited to, the expected share price volatility, expected changes in dividend rate and the contracted option life. These assumptions may differ from actual results due to changes in economic conditions.

See note 24 for further information on share-based compensation and cash incentives plans.

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5. Acquisitions and divestments

Transactions in 2011

Acquisitions

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

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

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

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

Table 5

Preliminary financial information

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

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

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

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

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

- The newly acquired holding company granted a short term loan of USD 86 million to the Group;

- The Group granted a long term loan of USD 246 million to one of the newly acquired entities.

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

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

Divestments

On January 12, 2012, the Group sold all of its shares in La Boliviana Ciacruz de Seguros y Reaseguros S.A. and Zurich Boliviana de Seguros Personales S.A. based in Bolivia, general and life insurance companies. As of December 31, 2011 the operations were classified as held for sale and the resulting loss on divestment of businesses amounted to USD 13 million.

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

Transactions in 2010

Acquisitions

On November 1, 2010 the Group completed the acquisition of 80.0 percent of PT Zurich Topas Life (formerly PT Mayapada Life), a life insurer based in Indonesia focused on the distribution of group and individual life and health plans. Mayapada Group will continue to hold 20.0 percent of PT Zurich Topas Life. Through this transaction, the Group established its presence in the Indonesian life insurance market. Total acquisition costs amounted to less than USD 1 million. PT Zurich Topas Life has been included in the Group's Consolidated financial statements as of January 1, 2011.

On December 1, 2010 the Group completed the acquisition of 99.99 percent of Compagnie Libanaise d'Assurances SAL, a composite insurer based in Lebanon with branch operations in the United Arab Emirates, Kuwait and Oman. With this

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transaction the Group accelerated the expansion of its operations in the Middle East. Following a preliminary purchase price adjustment the total purchase price reduced to USD 33 million. Based on immaterial net assets acquired the residual goodwill amounted to USD 33 million and represents expected growth opportunities in the region.

Divestments and loss of control

On February 15, 2010, Royal Bafokeng Finance (Pty) Limited (RBF), an investment company based in South Africa and wholly owned by Royal Bafokeng Holdings (Pty) Limited, based in South Africa and responsible for the management and development of the commercial assets of the Royal Bafokeng Nation, increased its shareholding in Zurich Insurance Company South Africa Limited (ZICSA), of which the Group owned 73.61 percent, by 15.1 percent from 10.0 percent to 25.1 percent for a consideration of USD 32 million in cash with option rights to increase its shareholding up to 51.0 percent or sell the entire stake back to the Group. To appropriately reflect the nature of the put and call options on the shares of ZICSA, the Group has reclassified the 25.1 percent non-controlling interest of RBF as a liability measured at fair value in the Consolidated financial statements. Following this transaction and the acquisition of 0.44 percent of ZICSA shares, the Group owned 58.95 percent of ZICSA shares as of December 31, 2010.

The Group lost control from an accounting perspective in CaixaSabadell Vida, S.A. de Seguros y Reaseguros and CaixaSabadell Compagnia d'Assegurances Generals, S.A. as of September 30, 2010, following the merger of the bank distribution partner Caixa d'Estalvis de Sabadell (Caixa Sabadell) together with two other Spanish savings banks to form Caixa d'Estalvis Unió de Caixes de Manlleu, Sabadell i Terrassa (Unnim) on July 1, 2010. Subsequently, on November 16, 2010 the Group entered into a definitive agreement to sell back to Unnim its 50 percent stakes in the life and general insurance bancassurance companies, CaixaSabadell Vida, S.A. de Seguros y Reaseguros and CaixaSabadell Companyia d'Assegurances Generals, S.A., respectively, jointly owned with Unnim (the Unnim Jointly Owned Companies). The Group derecognized the assets and liabilities at their carrying amount and recognized its retained investment in the Unnim Jointly Owned Companies as an equity security classified as available-for-sale as of September 30, 2010. USD 52 million was recorded within net gain on divestments of businesses in 2010. Following approval by the relevant regulatory authorities, the transaction was closed on February 28, 2011. Unnim paid a cash consideration of USD 393 million (EUR 285 million) to the Group in exchange for the Group's Unnim Jointly Owned Companies stakes, which the Group acquired in 2008 from Caixa Sabadell.

As of December 31, 2010 the Group no longer has control in Futuro de Bolivia S.A. Administradora de Fondos de Pensiones following changes in the regulatory environment. The Group derecognized the assets and liabilities at their carrying amount and recorded a net loss of USD 16 million within net gain/(loss) on divestments of businesses. During 2010, the Group also divested all of its shares in Trent Insurance Company Limited, a company based in the UK and Maryland Insurance Company, a company based in the U.S., for a pre-tax gain on disposal in aggregate of USD 2 million with immaterial cash and net assets sold.

6. Investments

Table 6.1a

Investment result for total investments

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments and impairments		Investment result	
	2011	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	65	54	10	7	75	60
Equity securities	1,819	1,674	(5,193)	8,467	(3,374)	10,142
Debt securities	5,684	5,550	1,158	1,500	6,842	7,050
Real estate held for investment	859	791	(33)	216	825	1,007
Mortgage loans	494	505	(135)	(353)	358	153
Other loans	873	819	202	(1)	1,075	818
Investments in associates and joint ventures	12	17	(45)	(37)	(33)	(20)
Derivative financial instruments[1]	–	–	918	(369)	918	(369)
Investment result, gross	9,805	9,410	(3,119)	9,430	6,685	18,841
Investment expenses	(863)	(757)	–	–	(863)	(757)
Investment result, net	**8,942**	**8,653**	**(3,119)**	**9,430**	**5,823**	**18,083**

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

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 203 million and USD 201 million for the years ended December 31, 2011 and 2010, respectively.

Table 6.1b

Investment result for Group investments

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments and impairments		Investment result	
	2011	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	62	52	1	(1)	63	51
Equity securities	329	340	311	285	641	625
Debt securities	5,375	5,268	923	1,230	6,297	6,498
Real estate held for investment	531	466	46	28	576	494
Mortgage loans	494	505	(135)	(353)	358	153
Other loans	635	669	202	54	837	723
Investments in associates and joint ventures	12	17	(45)	(37)	(33)	(20)
Derivative financial instruments[1]	–	–	880	(308)	880	(308)
Investment result, gross for Group investments	7,437	7,317	2,182	898	9,619	8,215
Investment expenses for Group investments	(252)	(225)	–	–	(252)	(225)
Investment result, net for Group investments	**7,185**	**7,092**	**2,182**	**898**	**9,367**	**7,990**

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

For the years ended December 31, 2011 and 2010, respectively, impairment charges on Group investments included in net capital gains/(losses) amounted to USD 458 million and USD 1,001 million, including USD 133 million and USD 407 million, respectively, for impairment charges on mortgage loans, other loans and investments in associates and joint ventures.

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Investment result for unit-linked contracts

Table 6.1c

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments		Investment result	
	2011	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	3	2	9	8	12	9
Equity securities	1,490	1,335	(5,505)	8,182	(4,015)	9,516
Debt securities	309	282	236	270	545	552
Real estate held for investment	328	325	(79)	188	249	513
Other loans	237	150	–	(55)	237	95
Derivative financial instruments	–	–	38	(60)	38	(60)
Investment result, gross for unit-linked contracts	2,367	2,093	(5,302)	8,533	(2,934)	10,626
Investment expenses for unit-linked contracts	(610)	(532)	–	–	(610)	(532)
Investment result, net unit-linked contracts	**1,757**	**1,561**	**(5,302)**	**8,533**	**(3,544)**	**10,093**

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

Table 6.2

in USD millions, for the years ended December 31	Equity securities		Debt securities		Total	
	2011	2010	**2011**	2010	**2011**	2010
Securities at fair value through profit or loss:	(5,472)	8,476	777	643	(4,695)	9,120
Net capital gains/(losses) on Group investments	33	294	541	373	574	667
of which:						
Trading securities	*12*	36	*5*	4	*17*	40
Securities designated at fair value through profit or loss	*20*	258	*537*	369	*557*	628
Net capital gains/(losses) for unit-linked contracts	(5,505)	8,182	236	270	(5,269)	8,452
Available-for-sale securities:	279	(9)	382	817	660	808
Realized capital gains on Group investments	705	610	1,278	1,468	1,983	2,078
Realized capital losses on Group investments	(156)	(122)	(841)	(514)	(997)	(636)
Impairments on Group investments	(270)	(497)	(55)	(137)	(325)	(634)
Held-to-maturity securities[1]	–	–	–	40	–	40
Total net capital gains/(losses) and impairments	**(5,193)**	**8,467**	**1,158**	**1,500**	**(4,035)**	**9,967**

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

Table 6.3a

Details of total investments by category

as of December 31	Total investments			
	2011		2010	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	10,048	3.4	9,726	3.2
Equity securities:				
Fair value through profit or loss	83,116	27.8	89,695	29.5
of which:				
Trading securities	*438*	*0.1*	*473*	*0.2*
Securities designated at fair value through profit or loss	*82,678*	*27.7*	*89,223*	*29.4*
Available-for-sale[1]	7,973	2.7	9,798	3.2
Total equity securities	91,088	30.5	99,494	32.7
Debt securities:				
Fair value through profit or loss	19,845	6.6	16,245	5.3
of which:				
Trading securities	*50*	*0.0*	*43*	*0.0*
Securities designated at fair value through profit or loss	*19,795*	*6.6*	*16,202*	*5.3*
Available-for-sale	129,306	43.2	128,257	42.2
Held-to-maturity	5,535	1.9	5,129	1.7
Total debt securities	154,686	51.7	149,630	49.2
Real estate held for investment	12,365	4.1	12,355	4.1
Mortgage loans	11,058	3.7	11,851	3.9
Other loans	19,582	6.5	20,601	6.8
Investments in associates and joint ventures	161	0.1	188	0.1
Total investments	**298,988**	**100.0**	**303,845**	**100.0**

[1] As of December 31, 2011 and 2010 this includes the Group's investment of 12.5 percent and 20 percent, respectively, in New China Life Insurance Company Ltd., over which the Group has no significant influence.

Table 6.3b

Details of Group investments by category

as of December 31	Group investments			
	2011		2010	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	8,768	4.5	8,182	4.2
Equity securities:				
Fair value through profit or loss	3,253	1.7	3,931	2.0
of which:				
Trading securities	*438*	*0.2*	*473*	*0.2*
Securities designated at fair value through profit or loss	*2,816*	*1.4*	*3,458*	*1.8*
Available-for-sale[1]	7,973	4.1	9,798	5.0
Total equity securities	11,226	5.8	13,729	7.0
Debt securities:				
Fair value through profit or loss	8,020	4.1	6,869	3.5
of which:				
Trading securities	*50*	*0.0*	*43*	*0.0*
Securities designated at fair value through profit or loss	*7,971*	*4.1*	*6,826*	*3.5*
Available-for-sale	129,306	66.5	128,257	65.5
Held-to-maturity	5,535	2.8	5,129	2.6
Total debt securities	142,861	73.5	140,254	71.6
Real estate held for investment	8,468	4.4	8,274	4.2
Mortgage loans	11,058	5.7	11,851	6.0
Other loans	11,842	6.1	13,419	6.9
Investments in associates and joint ventures	161	0.1	188	0.1
Total Group investments	**194,385**	**100.0**	**195,898**	**100.0**

[1] As of December 31, 2011 and 2010 this includes the Group's investment of 12.5 percent and 20 percent, respectively, in New China Life Insurance Company Ltd., over which the Group has no significant influence.

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

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

As of December 31, 2011 and 2010, investments included USD 6,298 million and USD 5,873 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Liabilities for cash collateral received for securities lending comprised USD 159 million and USD 485 million as of December 31, 2011 and 2010, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 6,474 million and USD 5,663 million as of December 31, 2011 and 2010, respectively. The Group can sell or repledge the collateral only in the event of a default by a counterparty.

As of December 31, 2011 and 2010, respectively, debt securities with a carrying value of USD 1,807 million and USD 3,383 million have been sold to financial institutions under short-term sale and repurchase agreements. These securities continue to be recognized as investments in the Group's consolidated balance sheets. Obligations to repurchase these securities amounted to USD 1,794 million and USD 3,330 million as of December 31, 2011 and 2010, respectively.

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

Details of investments held for unit-linked contracts

Table 6.3c

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

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

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

Debt securities maturity schedule (total investments)

Table 6.4

in USD millions, as of December 31	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2011	2010	2011	2010	2011	2010
Debt securities:						
< 1 year	680	131	11,071	9,147	4,486	1,859
1 to 5 years	2,225	1,915	40,987	41,406	4,894	4,910
5 to 10 years	613	1,097	30,177	27,697	3,761	3,180
> 10 years	2,017	1,986	26,661	25,923	5,632	5,014
Subtotal	5,535	5,129	108,896	104,173	18,773	14,963
Mortgage and asset-backed securities:						
< 1 year	–	–	866	575	41	17
1 to 5 years	–	–	6,417	7,933	365	295
5 to 10 years	–	–	3,361	4,843	252	325
> 10 years	–	–	9,765	10,733	414	645
Subtotal	–	–	20,410	24,084	1,072	1,282
Total	**5,535**	**5,129**	**129,306**	**128,257**	**19,845**	**16,245**

The analysis is provided by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Available-for-sale securities

Table 6.5

in USD millions, as of December 31	Cost or amortized cost[1]		Gross unrealized gains		Gross unrealized losses		Fair value	
	2011	2010	2011	2010	2011	2010	2011	2010
Equity securities								
Common stock	3,967	4,047	1,490	2,202	(417)	(324)	5,040	5,925
Unit trusts	2,775	3,730	309	341	(309)	(339)	2,775	3,731
Non-redeemable preferred stock	159	141	8	7	(8)	(7)	158	141
Total equity securities	**6,900**	**7,919**	**1,806**	**2,551**	**(733)**	**(671)**	**7,973**	**9,798**
Debt securities								
Swiss federal and cantonal governments	3,104	3,082	511	262	–	(9)	3,615	3,335
United Kingdom government	7,257	8,168	736	197	(3)	(22)	7,989	8,344
United States government	8,498	7,092	549	231	(42)	(104)	9,005	7,220
Other governments and supra-nationals	34,350	33,226	1,553	923	(1,303)	(855)	34,600	33,294
Corporate securities	52,407	50,786	3,720	2,934	(2,460)	(1,763)	53,667	51,957
Mortgage and asset-backed securities	19,713	23,617	939	865	(242)	(398)	20,410	24,084
Redeemable preferred stocks	37	23	1	–	(19)	–	19	24
Total debt securities	**125,367**	**125,995**	**8,008**	**5,412**	**(4,069)**	**(3,150)**	**129,306**	**128,257**

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

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Fair value through profit or loss securities

Table 6.6

as of December 31	Group investments				Investments for unit-linked products		Total investments	
	2011		2010		2011	2010	2011	2010
	USD millions	**% of total**	USD millions	% of total	**USD millions**	USD millions	**USD millions**	USD millions
Equity securities:								
Common stock	2,539	22.5	2,905	26.9	38,176	45,188	40,715	48,093
of which: common stock portfolios backing participating with profit policyholder contracts	*420*	*3.7*	*516*	*4.8*	–	–	*420*	*516*
Unit trusts	711	6.3	1,024	9.5	41,575	40,486	42,286	41,510
Non-redeemable preferred stock	3	0.0	2	0.0	111	91	114	93
Total equity securities	**3,253**	**28.9**	**3,931**	**36.4**	**79,862**	**85,765**	**83,116**	**89,695**
Debt securities:								
Debt securities	7,163	63.5	5,851	54.2	11,610	9,111	18,773	14,963
Mortgage and asset-backed securities	857	7.6	1,017	9.4	214	265	1,072	1,282
Total debt securities	**8,020**	**71.1**	**6,869**	**63.6**	**11,825**	**9,376**	**19,845**	**16,245**
Total	**11,274**	**100.0**	**10,799**	**100.0**	**91,687**	**95,141**	**102,961**	**105,940**

Held-to-maturity debt securities

Table 6.7

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

Real estate held for investment (total investments)

Table 6.8

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

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

Investments in associates and joint ventures

Table 6.9

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

[1] Disposed of in October 2011.
[2] The Group has several special purpose entities (SPEs) in the U.S. which are consolidated using the equity method as a reasonable approximation, as the equity pick up is usually 99% and the investment balance approximates the value of the SPE's assets. These entities were specifically designed to facilitate U.S. commercial property sale and leaseback transactions.

Net unrealized gains/(losses) on Group investments included in other comprehensive income

Table 6.10

in USD millions, as of December 31	Total	
	2011	2010
Equity securities: available-for-sale	1,072	1,880
Debt securities: available-for-sale	3,941	2,262
Other	295	76
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(1,349)	(662)
Life deferred acquisition costs	(97)	(154)
Deferred income taxes	(834)	(869)
Non-controlling interests	3	(9)
Total[1]	**3,032**	**2,524**

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

Consolidated financial statements *continued*

7. Derivative financial instruments and hedge accounting

The Group uses derivatives mainly for economic hedging purposes in order to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates. The Group may also use derivatives to protect itself against the credit risk of counterparties.

In certain circumstances these instruments may meet the requirements of an effective hedge for accounting purposes. Where this is the case, hedge accounting may be applied. Financial information for these instruments are set out in table 7.2.

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2011 and 2010, respectively. Whilst these notional amounts express the extent of the Group's involvement in derivative transactions, they are not however representative of amounts at risk. Fair values for derivatives are included in the consolidated balance sheets in other assets and other liabilities.

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

Table 7.1

in USD millions, as of December 31	2011						2010		
	Maturity by notional amount			Notional amounts	Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Interest rate contracts:									
OTC									
Swaps	686	430	3,158	4,274	307	(14)	3,054	187	(84)
Swaptions	539	3,113	4,360	8,012	560	(43)	6,618	214	(30)
Caps	–	–	–	–	–	–	206	–	–
Exchange traded									
Futures	997	–	–	997	–	–	1,203	–	–
Total interest rate contracts	**2,222**	**3,543**	**7,519**	**13,284**	**867**	**(58)**	**11,080**	**401**	**(114)**
Equity contracts:									
OTC									
Swaps	36	–	–	36	–	(1)	281	–	(1)
Puts	1,928	441	1,650	4,019	253	(264)	4,543	189	(225)
Calls	780	1,332	3	2,115	41	(75)	3,919	69	(110)
Exchange traded									
Puts	44	–	–	44	4	–	74	3	–
Calls	22	–	–	22	–	(1)	58	1	–
Futures	511	–	–	511	–	(8)	290	–	(4)
Total equity contracts	**3,321**	**1,772**	**1,654**	**6,747**	**298**	**(347)**	**9,165**	**263**	**(340)**
Foreign exchange contracts:									
OTC									
Cross Currency Swaps	–	423	–	423	–	(28)	425	–	(26)
Options	789	–	–	789	–	(11)	–	–	–
Forwards	14,205	–	–	14,205	124	(110)	14,413	343	(445)
Total foreign exchange contracts	**14,995**	**423**	**–**	**15,418**	**124**	**(149)**	**14,838**	**343**	**(471)**
Credit contracts:									
OTC									
Credit Default Swaps	130	30	–	160	–	(1)	432	2	–
Total credit contracts	**130**	**30**	**–**	**160**	**–**	**(1)**	**432**	**2**	**–**
Other contracts:									
OTC									
Puts	–	–	523	523	–	(52)	833	–	(27)
Swaps	–	–	69	69	–	(9)	66	–	(5)
Total other contracts	**–**	**–**	**591**	**591**	**–**	**(61)**	**899**	**–**	**(33)**
Total Group derivative financial instruments	20,667	5,769	9,763	36,200	1,290	(616)	36,414	1,009	(958)
Total unit-linked derivative financial instruments	662	1,158	66	1,886	65	(37)	2,353	104	(3)
Total	**21,329**	**6,927**	**9,829**	**38,085**	**1,356**	**(653)**	**38,767**	**1,113**	**(961)**

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Interest rate contracts

Interest rate contracts are used to hedge risks from changes in interest rates and to manage asset liability mismatches. Whenever possible the Group enters into exchange traded contracts, which are standardized and regulated. Furthermore, because of the structure of the Exchanges, exchange traded contracts are not considered to carry counterparty risk. Over the counter (OTC) contracts are otherwise applied and comprise swaps and swaptions.

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

Equity contracts

Equity contracts are entered into mostly on a portfolio level to protect equity investments against a decline in equity market prices and to manage the risk return profile of equity exposures. Most equity contracts are purchased put options. The decrease in the notional amount of call options between December 31, 2011 and December 31, 2010 was mainly driven by the sale of a book of guaranteed equity bonds (structured deposit accounts) to an external counterparty. Total return swaps and exchange traded options relate to the dynamic hedging strategy that has been put in place to reduce the volatility associated with a closed book of variable annuities products within its U.S. life business.

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

Foreign exchange contracts

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

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

The notional amounts of foreign exchange forwards decreased by USD 208 million between December 31, 2010 and December 31, 2011, as a result of market movements.

Credit contracts

The decrease in notional for credit default swaps, purchased by the Group to protect reinsurance assets, related to matured positions.

Other contracts

Other contracts predominantly include stable value options (SVOs), which include written equity put options. SVOs have been provided by the Group to certain bank and corporate customers (policyholders) in the U.S., in respect of the investment returns which arise on investments underlying Bank Owned Life Insurance (BOLI) and Company Owned Life Insurance (COLI) policies. Premiums received from policyholders under these policies are invested in separate account portfolios. Throughout the life of the policies, policyholders are entitled, in addition to mortality cover, to tax-exempt investment returns linked to the performance of the underlying investments. The policies are long duration contracts providing charges and benefits over a policy life that can be greater than 45 years. SVOs reduce the volatility of the policyholders' investment returns. In the event that a policy is surrendered, the policyholder would be entitled to recover the excess of the notional SVO derived value as well as the market value of the underlying investments. Certain policy features as well as certain regulations provide disincentives for surrender. The Group monitors the risk of surrender on an ongoing basis and considers the likelihood of surrender as an input factor to the model to determine the fair value of the SVOs. During 2011, there were two full surrenders compared with five surrenders in 2010. In 2011 the net gain on surrender amounted to USD 1 million. The fair value of the derivative liability recognized in respect of the SVOs, included in written put options, was USD 52 million and USD 25 million as of December 31, 2011 and 2010, respectively. The notional SVO derived value was USD 523 million and USD 831 million as of December 31, 2011 and 2010, respectively, representing the total loss before surrender charges in the unlikely event that all policies would have been surrendered on those dates.

The following table sets out details of fair value and cash flow hedges:

Table 7.2

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

in USD millions, as of December 31						2011			2010
	Maturity by notional amount			Notional principal amounts	Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Fair value hedges:									
Cross currency interest rate swaps	–	1,518	–	1,518	269	–	1,540	258	–
Currency swaps	–	1	69	69	–	(38)	69	–	(37)
Total fair value hedges	**–**	**1,519**	**69**	**1,588**	**269**	**(38)**	**1,609**	**258**	**(37)**
Cash flow hedges:									
Options on interest rate swaps	–	901	2,229	3,130	414	–	3,855	331	–
Currency swaps	–	1,768	–	1,768	75	(9)	1,768	68	(7)
Interest rate swaps	37	91	75	203	11	–	302	6	–
Total cash flow hedges	**37**	**2,761**	**2,304**	**5,102**	**501**	**(9)**	**5,925**	**406**	**(7)**

Fair value hedges

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

A fair value hedge relationship on the EUR 500 million 4.5 percent subordinated bond due June 2025 issued by Zurich Finance (USA), Inc. (see note 21), was entered into at the issuance of the debt instrument in 2005 and will end on June 15, 2015.

A fair value hedge relationship on 20 percent of the EUR 1 billion 4.5 percent senior debt due for repayment in 2014 issued by Zurich Finance (USA), Inc. (see note 21), was entered into on January 1, 2007 and will end on the maturity of the underlying debt instrument in 2014.

A fair value hedge relationship on the USD 750 million 3.25 percent senior bond due for repayment in September 2013 issued by Zurich Finance (Luxembourg), S.A. (see note 21), was entered into on April 8, 2010 and will end on the maturity of the underlying debt instrument in 2013.

The Group also has fair value hedge relationships consisting of currency swaps to protect certain non euro-denominated fixed income securities from foreign currency fluctuation.

Changes in the fair value of the derivatives designated as fair value hedges and changes in the fair value of the hedged item in relation to the risk being hedged are recognized in income.

Gains and losses arising from fair value hedges are as follows:

Table 7.3

Gains/(losses) arising from fair value hedges

in USD millions, as of December 31	2011	2010
Gains/(losses)		
on hedging instruments[1]	*(6)*	*(52)*
on hedged items attributable to the hedged risk	*–*	*44*

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

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Cash flow hedges

Designated cash flow hedges, such as options on interest rate swaps are used to protect the Group against variability of future cash flows due to changes in interest rates associated with expected future purchases of debt securities (during the years 2016, 2021 and 2026) required for certain life insurance policies. The effective portion of the gains and losses on these swaps are initially recognized in other comprehensive income. Subsequently the gains or losses will be recycled to income between the years ended December 31, 2012 and 2036. The gains and losses relating to the ineffective portion of these hedges are recognized immediately in income within net capital gains/losses on investments and impairments.

The Group also uses currency swaps for cash flow hedging to protect against exposures to variability of cash flows. The change in the fair value of the hedging instrument is recognized directly in other comprehensive income. The ineffective portion of the change in fair value is recognized directly in income within administrative and other operating expense. The effective portion, related to spot rate changes in the fair value of the hedging instrument, is reclassified to income within administrative and other operating expense as an offset to foreign currency revaluation on the underlying hedged debt.

As of December 31, 2011 the following cash flow hedge relationships were in place (see note 21):

- 80 percent of the EUR 1 billion 4.5 percent senior bond due 2014 issued by Zurich Finance (USA), Inc. entered on January 1, 2007 ending September 17, 2014.

- 100 percent of EUR 600 million 6.5 percent senior bond due October 2015 issued by Zurich Finance (USA), Inc. entered on April 14, 2009 ending October 15, 2015.

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

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

A loss of USD 13 million and a gain of USD 10 million for the years ended December 31, 2011 and 2010, respectively, was recognized in net capital gains/(losses) and impairments due to ineffectiveness of a hedge and changes in the time value of the option.

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

Reserves for insurance contracts

Table 8.1

in USD millions, as of December 31	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
Reserves for losses and loss adjustment expenses	67,525	68,107	(12,401)	(12,093)	55,124	56,014
Reserves for unearned premiums	16,567	16,081	(2,332)	(2,185)	14,235	13,895
Future life policyholders' benefits	79,314	79,315	(2,572)	(2,423)	76,742	76,891
Policyholders' contract deposits and other funds	18,251	17,430	(2,181)	(2,246)	16,070	15,184
Reserves for unit-linked contracts	59,154	61,786	–	–	59,154	61,786
Total reserves for insurance contracts[1]	**240,811**	**242,719**	**(19,486)**	**(18,949)**	**221,325**	**223,770**

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

Development of reserves for losses and loss adjustment expenses

Table 8.2

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

[1] The 2011 net movement mainly included reserves for losses and loss adjustments expenses acquired with MAA and Compagnie Libanaise d'Assurances SAL of USD 170 million, partly offset by USD (21) million due to the reclassification to held for sale of the Group's operations in Bolivia (see note 5).

The Group establishes loss reserves, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates or judgments are reflected in the results of operations in the period in which estimates and judgments are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The reserves for losses and loss adjustment expenses are determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Table 8.2 shows the development of reserves for losses and loss adjustment expenses during the year. The decrease of USD 890 million in total net reserves includes USD 1,302 million of favorable reserve development emerging from reserves established in prior years. Gross of reinsurance, the favorable development was USD 1,650 million. This favorable development was primarily attributable to the General Insurance business and breaks down into many individual movements by market-facing business, country, line of business, and accident year.

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

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

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

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

Development of insurance losses, net

Table 8.3

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

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Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Group established in 2002 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. Similarly, the cumulative incurred losses section details the sum of the cumulative paid amounts shown in the triangle above and the changes in loss reserves since the end of each financial year. The net reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2011. It is the difference between the initial net reserve estimate and the last entry of the diagonal. Conditions and trends that have affected the development of reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.3.

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

Table 8.4

in USD millions	2011		2010	
	Gross	**Net**	Gross	Net
Asbestos				
As of January 1	3,408	2,863	3,604	2,998
Losses and loss adjustment expenses incurred	42	79	35	34
Losses and loss adjustment expenses paid	(159)	(125)	(138)	(90)
Foreign currency translation effects	(8)	(8)	(94)	(79)
As of December 31	**3,283**	**2,810**	**3,408**	**2,863**
Environmental				
As of January 1	290	223	280	242
Losses and loss adjustment expenses incurred	31	20	61	20
Losses and loss adjustment expenses paid	(41)	(38)	(51)	(38)
Foreign currency translation effects	1	–	1	–
As of December 31	**282**	**206**	**290**	**223**

The Group has considered asbestos, environmental and latent injury claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Group continues to be advised of claims asserting injuries from toxic waste, hazardous materials and other environmental pollutants, alleged damages to cover the clean-up costs of hazardous waste dump sites relating to policies written in prior years and indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, together with increased medical diagnostic capabilities and awareness have often caused actual loss development to exhibit more variation than in other lines. Such claims require specialized reserving techniques and the uncertainty of the ultimate cost of these types of claims has tended to be greater than the uncertainty relating to standard lines of business.

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

Reserves for environmental claims decreased by USD 8 million gross and USD 17 million net, and increased by USD 10 million gross but decreased by USD 19 million net during the years ended December 31, 2011 and 2010, respectively. For the year ended December 31, 2010, the difference in gross and net movements is explained by the increase in ceded reserves, largely the result of the re-estimation of reserves in North America.

While the Group believes that it has made adequate provision for these claims, it is possible that future adverse development could have a material effect on the Group's results of operations, cash flows and financial position. The net reserve amounts relating to such claims are not discounted for the time value of money.

Table 8.5

Development of future life policyholders' benefits

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

[1] The 2011 net movement mainly included reclassifications of USD 212 million transferred from other liabilities to future life policyholders' benefits, partly offset by USD (27) million transferred to liabilities for investment contracts (see note 1). Additionally, it included the future life policyholders' benefits acquired with MAA (see note 5) of USD 1,361 million. The 2010 net movement included USD 2,730 million related to the transfer to other reserves categories and USD (1,508) million related to loss of control in Caixa Sabadell (see note 5).

Long-duration contract liabilities included in future life policyholders' benefits result primarily from traditional participating and non-participating life insurance products. Short-duration contract liabilities are primarily accident and health insurance products.

The amount of policyholder dividends to be paid is determined annually by each life insurance subsidiary. Policyholder dividends include life policyholders' share of net income and unrealized appreciation of investments that are required to be allocated by the insurance contract or by local insurance regulations. Experience adjustments relating to future policyholders' benefits and policyholders' contract deposits vary according to the type of contract and the country. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

The net impact of changes in assumptions on net future life policyholders' benefits was USD 400 million and USD 170 million for the years ended December 31, 2011 and 2010, respectively. The net changes include the following significant movements:

Table 8.6

Effect of changes in assumptions for future life policyholders' benefits

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

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Policyholders' contract deposits and other funds gross

Table 8.7

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

Development of policyholders' contract deposits and other funds

Table 8.8

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

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

Development of reserves for unit-linked contracts

Table 8.9

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

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

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

Liabilities for investment contracts

Table 9.1 in USD millions, as of December 31	2011	2010
Liabilities related to unit-linked investment contracts	44,220	44,941
Liabilities related to investment contracts (amortized cost)	834	592
Liabilities related to investment contracts with DPF	5,607	5,134
Total	**50,661**	**50,667**

Unit-linked investment contracts issued by the Group are recorded at a value reflecting the returns on investment funds which include selected equities, debt securities and derivatives. Policyholders bear the full risk of the returns on these investments.

The value of financial liabilities at amortized cost is based on a discounted cash flow valuation technique. The discount rate is determined by the current market assessment of the time value of money and risk specific to the liability.

Development of liabilities for investment contracts

Table 9.2 in USD millions	2011	2010
As of January 1	50,667	46,124
Premiums	7,934	7,963
Claims	(5,762)	(5,478)
Fee income and other expenses	(573)	(692)
Interest and bonuses charged/(credited) to policyholders	(1,431)	5,267
Transfers[1]	543	(892)
Increase/(decrease) recorded in other comprehensive income	(6)	(35)
Foreign currency translation effects	(712)	(1,590)
As of December 31	**50,661**	**50,667**

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

10. Equity component relating to contracts with DPF

Certain investment and insurance contracts sold by the Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the Group. Where that discretion has not been exercised, the total amount of undeclared funds surplus is included in other comprehensive income. Mandated allocations related to unrealized results and earnings are included in policyholder liabilities and, upon declaration, discretionary bonuses are allocated to policyholders. The changes in the table below represent the increase or decrease in unallocated gains and retained earnings after charging discretionary bonuses to policyholder liabilities.

Development of the equity component relating to contracts with DPF

Table 10 in USD millions	2011	2010
As of January 1	2,168	1,837
Net unrealized (losses)/gains on investments	(676)	(39)
Current period profit	5	194
Foreign currency translation effects	(9)	176
As of December 31	**1,488**	**2,168**

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11. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 11.1

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
Losses and loss adjustment expenses	26,847	27,098	(4,408)	(3,478)	22,439	23,620
Life insurance death and other benefits	11,366	11,004	(462)	(456)	10,904	10,548
Change in future life policyholders' benefits	(107)	488	(182)	(172)	(289)	316
Total insurance benefits and losses	**38,106**	**38,591**	**(5,052)**	**(4,106)**	**33,054**	**34,484**

Policyholder dividends and participation in profits

Table 11.2

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

Underwriting and policy acquisition costs

Table 11.3

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

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

Change in reserves for unearned premiums

Table 11.4

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
Change in reserves for unearned premiums	**932**	**(1,019)**	**(181)**	**(215)**	**751**	**(1,234)**

12. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 12.1

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

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

Development of deferred origination costs

Table 12.2

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

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

13. Administrative and other operating expenses

Administrative and other operating expenses

Table 13

in USD millions, for the years ended December 31	**2011**	2010
Wages and salaries	3,276	3,055
Other employee benefits	565	410
Amortization and impairments of intangible assets	805	882
Depreciation and impairments of property and equipment	191	205
Rent, leasing and maintenance	453	389
Marketing costs	209	201
Life recurrent commission	386	348
Asset and other non-income taxes	58	44
IT costs	804	691
Litigation and settlement costs	77	646
Restructuring costs	222	111
Foreign currency translation	(157)	(159)
Other	1,380	1,153
Total	**8,270**	**7,976**

The above numbers reflect the costs by nature after allocation of certain costs, in particular wages and salaries as well as other employee benefits, on a functional basis.

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14. Farmers management fees and other related revenues

Farmers management fees and other related revenues

Table 14

in USD millions, for the years ended December 31	2011	2010
Farmers management fees and other related revenues	**2,767**	**2,778**

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

FGI has historically charged a lower management fee than the amount allowed by contract. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 18,149 million and USD 18,311 million for the years ended December 31, 2011 and 2010, respectively.

15. Mortgage loans given as collateral and collateralized loans

As part of the Deutscher Herold transaction in 2002, the Group acquired various mortgage loans. Deutscher Herold had previously sold these loans to credit institutions while retaining the related credit and interest risk. Therefore the loans have not been derecognized from the balance sheet and the transaction is reflected as a collateralized borrowing. Accordingly, the loans are recorded as mortgage loans given as collateral and the liability to credit institutions as collateralized loans.

Impairment charges of USD 1 million on mortgage loans given as collateral were recorded in income for the year ended December 31, 2010. There were no impairment charges in 2011.

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

Maturity schedule – collateralized loans

Table 15

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

[1] Allocation to the time bands is based on the expected maturity date.
[2] Allocation to the time bands is based on the earliest contractual maturity.

16. Property and equipment

Table 16.1

Property and equipment – current period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2011	352	1,201	471	582	828	3,435
Less: accumulated depreciation/impairments	(1)	(424)	(364)	(486)	(471)	(1,745)
Net carrying value as of January 1, 2011	352	777	107	96	357	1,689
Additions and improvements	–	7	51	48	93	199
Acquisitions[1]	18	63	3	–	1	86
Disposals	(5)	(10)	(1)	(1)	(33)	(50)
Transfers	(37)	(86)	33	(2)	(47)	(139)
Depreciation and impairments	(1)	(33)	(41)	(45)	(71)	(191)
Foreign currency translation effects	(3)	(8)	(2)	(1)	(1)	(15)
Net carrying value as of December 31, 2011	**325**	**709**	**152**	**95**	**299**	**1,579**
Plus: accumulated depreciation/impairments	–	348	423	464	395	1,630
Gross carrying value as of December 31, 2011	**325**	**1,057**	**575**	**559**	**694**	**3,209**

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

Table 16.2

Property and equipment – prior period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2010	364	1,249	475	871	794	3,754
Less: accumulated depreciation/impairments	–	(422)	(364)	(604)	(422)	(1,811)
Net carrying value as of January 1, 2010	364	828	111	267	371	1,942
Additions and improvements	–	33	21	40	88	182
Disposals	(5)	(15)	(1)	(167)	(22)	(210)
Transfers	(19)	(48)	–	16	(2)	(53)
Depreciation and impairments	(1)	(35)	(25)	(63)	(81)	(205)
Foreign currency translation effects	12	13	2	2	4	33
Net carrying value as of December 31, 2010	**352**	**777**	**107**	**96**	**357**	**1,689**
Plus: accumulated depreciation/impairments	1	424	364	486	471	1,745
Gross carrying value as of December 31, 2010	**352**	**1,201**	**471**	**582**	**828**	**3,435**

The fire insurance value of the Group's own-use property and equipment totaled USD 2,917 million and USD 3,344 million as of December 31, 2011 and 2010, respectively.

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17. Goodwill and other intangible assets

Intangible assets – current period

Table 17.1

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2011	2,241	2,528	2,607	1,025	3,967	195	12,563
Less: accumulated amortization/impairments	(136)	(1,622)	(326)	–	(2,344)	(76)	(4,505)
Net carrying value as of January 1, 2011	2,104	906	2,281	1,025	1,623	119	8,059
Additions and transfers	51	24	74	–	560	1	710
Divestments and transfers[1]	(12)	–	–	–	–	–	(12)
Amortization	–	(114)	(127)	–	(432)	(14)	(686)
Amortization charged to other comprehensive income	–	82	–	–	–	–	82
Impairments	–	–	–	–	(119)	–	(119)
Foreign currency translation effects	(84)	(19)	(79)	–	(15)	(2)	(200)
Net carrying value as of December 31, 2011	**2,060**	**879**	**2,149**	**1,025**	**1,616**	**104**	**7,834**
Plus: accumulated amortization/impairments	126	1,640	430	–	2,593	86	4,876
Gross carrying value as of December 31, 2011	**2,186**	**2,519**	**2,579**	**1,025**	**4,210**	**190**	**12,709**

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

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

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

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

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

Intangible assets by segment – current period

Table 17.2

in USD millions, as of December 31, 2011	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	827	–	527	–	548	83	1,985
Global Life	413	879	1,622	–	372	21	3,308
Farmers	819	–	–	1,025	409	–	2,254
Other Operating Businesses	–	–	–	–	286	–	286
Non-Core Businesses	–	–	–	–	1	–	1
Net carrying value as of December 31, 2011	**2,060**	**879**	**2,149**	**1,025**	**1,616**	**104**	**7,834**

Intangible assets – prior period

Table 17.3

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2010	2,331	2,749	3,426	1,025	3,430	224	13,186
Less: accumulated amortization/impairments	(34)	(1,612)	(251)	–	(1,861)	(85)	(3,844)
Net carrying value as of January 1, 2010	2,297	1,137	3,174	1,025	1,569	139	9,342
Additions and transfers	(2)	–	–	–	561	5	565
Divestments and transfers[1]	(49)	(87)	(560)	–	(19)	–	(714)
Amortization	–	(107)	(136)	–	(384)	(15)	(643)
Amortization charged to other comprehensive income	–	22	–	–	–	–	22
Impairments	(104)	(3)	–	–	(126)	(5)	(239)
Foreign currency translation effects	(38)	(55)	(198)	–	22	(4)	(274)
Net carrying value as of December 31, 2010	**2,104**	**906**	**2,281**	**1,025**	**1,623**	**119**	**8,059**
Plus: accumulated amortization/impairments	136	1,622	326	–	2,344	76	4,505
Gross carrying value as of December 31, 2010	**2,241**	**2,528**	**2,607**	**1,025**	**3,967**	**195**	**12,563**

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

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

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

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

Table 17.4

Intangible assets by segment – prior period

in USD millions, as of December 31, 2010	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	869	–	538	–	576	94	2,077
Global Life	411	906	1,742	–	348	25	3,433
Farmers	819	–	–	1,025	428	–	2,273
Other Operating Businesses	5	–	–	–	268	–	273
Non-Core Businesses	–	–	–	–	2	–	2
Net carrying value as of December 31, 2010	**2,104**	**906**	**2,281**	**1,025**	**1,623**	**119**	**8,059**

18. Receivables and other assets

Receivables and other assets

Table 18

in USD millions, as of December 31	2011	2010
Financial assets		
Derivative assets	2,126	1,777
Receivables from policyholders	2,957	3,042
Receivables from insurance companies, agents and intermediaries	5,495	5,343
Receivables arising from ceded reinsurance	1,155	1,195
Reverse repurchase agreements	814	1,171
Amounts due from investment brokers	321	395
Other receivables	1,880	2,371
Allowance for impairments[1]	(320)	(323)
Other assets	134	132
Non-financial assets		
Current tax receivables	789	740
Accrued premiums	684	748
Prepaid expenses	286	254
Prepaid insurance benefits	432	441
Other assets	404	385
Assets related to Santander insurance operations in Latin America[2]	15,611	–
Total receivables and other assets	**32,766**	**17,671**

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

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

19. Other liabilities

Other liabilities

Table 19.1

in USD millions, as of December 31	2011	2010
Other financial liabilities		
Derivative liabilities	700	1,005
Amounts due to reinsurers, agents and other insurance companies	2,076	2,041
Amounts due to investment brokers	1,399	1,059
Amounts due to life policyholders	639	668
Liabilities for cash collateral received for securities lending	159	485
Deposits from banking activities	815	1,559
Liabilities for defined benefit plans	2,905	1,779
Other liabilities for employee benefit plans	109	112
Other liabilities	6,231	6,583
Other non-financial liabilities		
Current tax payables	779	850
Restructuring provisions	254	155
Premium prepayments and other advances	869	957
Other liabilities	1,192	1,141
Liabilities related to Santander insurance operations in Latin America[1]	13,191	–
Total other liabilities	**31,317**	**18,396**

[1] See note 5.

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

Maturity schedule – other financial liabilities[1]

Table 19.2

in USD millions, as of December 31	2011 Carrying value[2]	2011 Undiscounted cash flow[3]	2010 Carrying value[2]	2010 Undiscounted cash flow[3]
< 1 year	10,437	10,429	10,842	10,853
1 to 2 years	376	387	748	775
2 to 3 years	116	118	301	313
3 to 4 years	183	196	283	292
4 to 5 years	114	115	172	180
> 5 years	900	1,107	1,167	2,220
Total	**12,126**	**12,354**	**13,513**	**14,634**

[1] Excluding liabilities for defined benefit plans.
[2] Allocation to the time bands is based on the expected maturity date.
[3] Allocation to the time bands is based on the earliest contractual maturity.

Restructuring provisions

Table 19.3

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

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

During the year ended December 31, 2010, the Group entered into several restructuring programs, recording a total charge to income of USD 62 million. A further USD 49 million was recorded in respect of restructuring programs initiated in prior years. The largest restructuring program was initiated as part of the new strategy of the Group's General Insurance business. The UK Direct operations are now integrated into the UK business to create operational synergies and the focus of the Direct insurance efforts are on Germany, Italy and Switzerland. The related restructuring costs amounted to USD 20 million. In addition, the Group recorded USD 114 million of software impairments as outlined in note 17.

20. Income taxes

Income tax expense – current/deferred split

Table 20.1

in USD millions, for the years ended December 31	2011	2010
Current	1,099	1,128
Deferred	(134)	227
Total income tax expense	**965**	**1,355**

Income tax expense – policyholder/shareholder attribution

Table 20.2

in USD millions, for the years ended December 31	2011	2010
Total income tax expense/(benefit) attributable to policyholders	(242)	462
Total income tax expense attributable to shareholders	1,206	894
Total income tax expense	**965**	**1,355**

The Group is required to record taxes on policyholder earnings for life insurance policyholders in certain jurisdictions. Accordingly, the income tax expense or benefit attributable to these life insurance policyholder earnings is included in income tax expense. In certain jurisdictions an accrual for future policy fees that will cover the tax charge is included in insurance benefits and losses.

Expected and actual income tax expense

Table 20.3

in USD millions, for the years ended December 31	Rate	2011	Rate	2010
Net income before income taxes		4,757		4,862
Less: income tax (expense)/benefit attributable to policyholders		242		(462)
Net income before income taxes attributable to shareholders		4,998		4,400
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,100	22.0%	968
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*240*		57
Tax exempt and lower taxed income		*(82)*		(119)
Non-deductible expenses		*75*		63
Tax losses previously unrecognized or no longer recognized		*5*		33
Prior year adjustments and other		*(131)*		(109)
Actual income tax expense attributable to shareholders	24.1%	1,206	20.3%	894
Plus: income tax expense/(benefit) attributable to policyholders		(242)		462
Actual income tax expense	**20.3%**	**965**	**27.9%**	**1,355**

The table above sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

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Current tax receivables and payables

Table 20.4

in USD millions, as of December 31	**2011**	2010
Current tax receivables	789	740
Current tax payables	(779)	(850)
Net current tax receivables/(payables)	**10**	**(110)**

Deferred tax assets and liabilities

Table 20.5

in USD millions, as of December 31	**2011**	2010
Deferred tax assets	2,076	2,067
Deferred tax liabilities	(4,049)	(4,554)
Net deferred tax liabilities	**(1,973)**	**(2,487)**

Development of net deferred tax liabilities

Table 20.6

in USD millions	**2011**	2010
As of January 1	(2,487)	(1,990)
Net change recognized in the income statement	134	(227)
Net change recognized in equity	376	(488)
Net changes due to acquisitions/(divestments)	(19)	198
Foreign currency translation effects	23	20
As of December 31	**(1,973)**	**(2,487)**

The cumulative amount of deferred tax credited to shareholders' equity, net of foreign currency translation effects, amounted to USD 404 million and USD 28 million for the years ended December 31, 2011 and 2010, respectively.

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

Deferred taxes – policyholder/shareholder attribution

Table 20.7

in USD millions, as of December 31	**2011**	2010
Net deferred tax liabilities attributable to policyholders	(154)	(473)
Net deferred tax liabilities attributable to shareholders	(1,819)	(2,014)
Net deferred tax liabilities	**(1,973)**	**(2,487)**

Table 20.8

Deferred tax assets/(liabilities) analysis by source

in USD millions, as of December 31	2011		2010	
	Assets	**Liabilities**	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	24	(655)	26	(618)
Depreciable and amortizable assets	30	(73)	33	(38)
Life policyholders' benefits and deposits[1]	96	(49)	34	(13)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	410	(522)	328	(452)
Accruals & deferred income	191	(2)	207	(4)
Reserves for losses and loss adjustment expenses	457	(4)	511	(2)
Reserves for unearned premiums	729	(61)	720	–
Pensions and other employee benefits	541	–	381	–
Other assets/liabilities	756	(296)	723	(207)
Tax loss carryforwards	617	–	505	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,851	(1,662)	3,468	(1,335)
Valuation allowance	(113)	–	(66)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,738	(1,662)	3,401	(1,335)
Deferred tax assets	**2,076**		**2,067**	
Deferred acquisition and origination costs	76	(2,592)	90	(2,784)
Depreciable and amortizable assets	143	(1,877)	147	(2,023)
Life policyholders' benefits and deposits[1]	955	(777)	808	(722)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	303	(1,075)	249	(1,019)
Accruals & deferred income	109	(169)	120	(169)
Reserves for losses and loss adjustment expenses	109	(268)	109	(355)
Reserves for unearned premiums	39	(64)	34	(96)
Deferred front-end fees	634	–	717	–
Pensions and other employee benefits	457	(37)	344	(43)
Other assets/liabilities	866	(1,071)	829	(972)
Tax loss carryforwards	203	–	173	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,892	(7,930)	3,619	(8,162)
Valuation allowance	(12)	–	(11)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,880	(7,930)	3,608	(8,162)
Deferred tax liabilities		**(4,049)**		**(4,554)**
Net deferred tax liabilities		**(1,973)**		**(2,487)**

[1] Includes reserves for unit-linked contracts.

The Group's deferred tax assets and liabilities are recorded by its tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate. The first part of the table above includes single taxpayers with a net deferred tax asset position and the second part includes single taxpayers with a net deferred tax liability position.

As of December 31, 2011 and 2010 the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized amount to approximately USD 21 billion and UDS 19 billion, respectively. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

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Tax losses carryforwards and tax credits

Table 20.9

in USD millions, as of December 31	2011	2010
For which deferred tax assets have been recognized, expiring		
< 5 years	170	358
5 to 20 years	1,208	1,360
> 20 years or with no time limitation	1,010	203
Subtotal	2,388	1,920
For which deferred tax assets have not been recognized, expiring		
5 to 20 years	169	180
> 20 years or with no time limitation	598	436
Subtotal	767	616
Total	**3,155**	**2,536**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 20.6 percent and 22.4 percent for the years 2011 and 2010, respectively.

The recoverability of the deferred tax asset for each taxpayer is based on the taxpayer's ability to utilize the deferred tax asset over a reasonable period of time. This analysis considers the projected taxable income to be generated by the taxpayer, as well as its ability to offset the deferred tax asset against deferred tax liabilities.

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income projections and believes that the carrying values of the deferred tax assets as of December 31, 2011, are recoverable.

21. Senior and subordinated debt

Senior and subordinated debt

Table 21.1

in USD millions, as of December 31		2011	2010
Senior debt			
Zurich Capital Markets	Various debt instruments payable within 1 year	–	400
Zurich Finance (USA), Inc.	3.50% CHF 300 million notes, due November 2011[1, 6]	–	322
	4.50% EUR 1 billion notes, due September 2014[2, 6, 7]	1,312	1,353
	4.875% EUR 800 million notes, due April 2012[1, 6]	1,037	1,069
	6.50% EUR 600 million notes, due October 2015[3, 6]	776	801
	Euro Commercial Paper Notes	400	–
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million notes, due September 2013[5, 6, 7]	764	765
Zurich Insurance Company Ltd	3.875% CHF 1 billion notes, due July 2011[6]	–	1,071
	3.75% CHF 500 million notes, due September 2013[6]	531	531
	2.25% CHF 500 million notes, due July 2017[6]	529	–
	2.875% CHF 250 million notes, due July 2021[6]	262	–
	2.375% CHF 525 million notes, due November 2018[6]	553	–
Zurich Santander Insurance America S.L.	7.5% EUR 182 million loan, due December 2035	236	–
Other	Various debt instruments payable in more than 1 year	141	141
Senior debt		6,541	6,453
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes[6]	184	190
	7.5% EUR 425 million notes, due July 2039[6]	547	564
	4.25% CHF 700 million perpetual notes[6]	735	736
	4.625% CHF 500 million perpetual notes[6]	525	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes[4, 6]	690	692
Zurich Finance (USA), Inc.	5.75% EUR 500 million notes, due October 2023[1, 6]	641	661
	4.5% EUR 500 million notes, due June 2025[5, 6, 7]	688	696
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065	674	673
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 million Trust Preferred Securities, due May 2062	250	250
ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067	497	497
Other	Various debt instruments payable in more than 1 year	44	44
Subordinated debt		5,476	5,004
Total senior and subordinated debt		**12,017**	**11,457**

1 The bond is economically hedged, but hedge accounting treatment has not been applied.
2 The bond is part of a qualifying cash flow hedge (80 percent of the total) and fair value hedge (20 percent of the total).
3 The bond is part of a qualifying cash flow hedge (100 percent).
4 The holders of these notes benefit from the Replacement Capital Covenant which states that if Series IV and V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trusts IV and V, are called before 2042 and 2047 respectively, the Group will issue a replacement debt instrument with terms and provisions that are as or more equity-like than the replaced notes.
5 These bonds are part of qualifying fair value hedges (100 percent).
6 Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).
7 In 2011 the Group applied the cash flow hedge methodology to hedge the foreign currency exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge the interest rate exposure with changes in the fair value being recorded through the income statement.

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

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Senior and subordinated debt

To facilitate the issuance of debt, the Group has in place a Euro Medium Term Note Programme (EMTN Programme) allowing for the issuance of senior and subordinated notes up to a maximum of USD 18 billion. All issuances under this programme are either issued or guaranteed by Zurich Insurance Company Ltd. The Group has also issued debt instruments outside this programme when deemed appropriate.

i) Senior debt

Senior debt increased to USD 6,541 million as of December 31, 2011, from USD 6,453 million as of December 31, 2010. This was primarily due to three senior notes issued by Zurich Insurance Company Ltd under the EMTN Programme in July and November 2011 totaling CHF 1,275 million, and to the new issuance by Zurich Finance (USA), Inc. of USD 400 million commercial paper notes in October and December 2011 under the Group's new Euro Commercial Paper Programme.

These new issuances were almost fully offset by the repayments of USD 400 million commercial paper notes in July, 2011 by Zurich Capital Markets, the CHF 1 billion senior notes issued by Zurich Insurance Company Ltd, which matured on July 27, 2011 and the CHF 300 million senior notes issued by Zurich Finance (USA), Inc. which matured on November 23, 2011.

In addition, new long term debt of EUR 182 million was raised in November 2011 by a 51 percent owned subsidiary in connection with the Group entering into a 25-year strategic distribution arrangement in Latin America.

ii) Subordinated debt

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

Subordinated debt increased to USD 5,476 million as of December 31, 2011, from USD 5,004 million as of December 31, 2010, mainly as a result of a new CHF 500 million issue under the EMTN Programme in March 2011 to refinance the early redemption of hybrid debt that were classified as preferred securities in shareholders' equity as of December 31, 2010 and the translation effects of the U.S. dollar against the currencies in which the notes were issued.

Table 21.2

Description and features of significant subordinated debt

Description	Coupon conditions	Call/ redemption date	Redemption conditions
12.00% EUR 143 million, perpetual capital notes	12.00% payable annually up to July 15, 2014 and then reset quarterly to 3-month EURIBOR plus 10.33%.	Quarterly on or after July 15, 2014	Redeemable in whole at par plus any accrued interest.
7.5% EUR 425 million notes, due July 2039	7.5% payable annually up to July 24, 2019 and then reset quarterly to 3-month EURIBOR plus 5.85%.	Quarterly on or after July 24, 2019	Redeemable in whole or in part at par plus any accrued interest.
4.25% CHF 700 million, perpetual notes	4.25% payable annually up to May 26, 2016 and then reset quarterly to 3-month CHF-Libor plus 3.046%.	Quarterly on or after May 26, 2016	Redeemable in whole or in part at par plus any accrued interest.
4.625% CHF 500 million, perpetual notes	4.625% payable annually up to May 16, 2018 and then reset to the prevailing 7 year CHF mid swap rate plus 2.691%.	Annually on or after May 16, 2018	Redeemable in whole or in part at par plus any accrued interest.
6.625% GBP 450 million, perpetual notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest plus 2.85%.[1]	Every five years on or after October 2, 2022	Redeemable in whole every five years at par plus any accrued interest.
5.75% EUR 500 million notes, due October 2023	5.75% payable annually up to October 2, 2013 and then reset quarterly to 3-month EURIBOR plus 2.67%.	Quarterly on or after October 2, 2013	Redeemable in whole at par plus any accrued interest.
4.5% EUR 500 million notes, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015	Redeemable in whole at par plus any accrued interest.
Series II 6.45% USD 700 million Fixed/Adjustable Trust Preferred Securities (ECAPS), due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%.[2]	Quarterly on or after June 15, 2016	Redeemable in whole or in part at par plus any accrued interest.
Series IV 5.875% USD 500 million Fixed/Floating Trust Preferred Securities, due May 2062	5.875% payable semi-annually until May 9, 2012 and then reset quarterly to 3-month LIBOR plus 1.815%.	Quarterly on or after May 9, 2012	Redeemable in whole or in part at par plus any accrued interest.
Series V 6.5% USD 1 billion Fixed/Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017	Redeemable in whole or in part at par plus any accrued interest.

[1] Reset rate of interest is equal to the gross redemption yield on the benchmark five-year Gilt as determined by the Calculation Bank.
[2] Adjustable rate is equal to the greatest of (i) the 3-month LIBOR Rate; (ii) the 10-year Treasury CMT (Constant Maturity Treasury) Rate; and (iii) the 30-year Treasury CMT Rate, subject to a maximum under (ii) and (iii) of 13% for Series II.

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Maturity schedule – of outstanding debt

Table 21.3

in USD millions, as of December 31	2011 Carrying value	2011 Undiscounted cash flow	2010 Carrying value	2010 Undiscounted cash flow
< 1 year	1,437	2,032	1,793	2,355
1 to 2 years	1,305	1,823	1,080	1,603
2 to 3 years	1,324	1,811	1,297	1,749
3 to 4 years	917	1,319	1,388	1,797
4 to 5 years	–	376	919	1,273
5 to 10 years	1,345	2,838	–	1,278
> 10 years	5,689	7,625	4,981	6,805
Total	**12,017**	**17,825**	**11,457**	**16,861**

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

Interest expense on debt

Table 21.4

in USD millions, for the years ended December 31	2011	2010
Senior debt	263	254
Subordinated debt	324	302
Total	**586**	**556**

Interest expense on debt

Interest expense on debt increased to USD 586 million as of December 31, 2011, from USD 556 million as of December 31, 2010. The higher interest expense was mainly due to foreign exchange fluctuations and the issuance of new debt under the EMTN Programme offset by the positive impact of early redemptions in December 2010 and the expired 3.875% CHF 1 billion senior notes in July 2011.

Credit facilities

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

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

22. Shareholders' equity

Share capital

Table 22.1

	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2009	14,747,307	147,473,068	0.10
Share capital reduction as approved by the Annual General Meeting in 2010	(183,640)	(1,836,404)	0.10
New shares issued from contingent capital in 2010	95,023	950,232	0.10
As of December 31, 2010	14,658,690	146,586,896	0.10
New shares issued from contingent capital in 2011	79,893	798,926	0.10
As of December 31, 2011	14,738,582	147,385,822	0.10
Authorized, contingent and issued share capital			
As of December 31, 2010	17,129,526	171,295,259	0.10
As of December 31, 2011	17,129,526	171,295,259	0.10

a) Issued share capital

At the Annual General Meeting on March 30, 2010 the shareholders approved a share capital reduction of CHF 183,640.40 from CHF 14,747,306.80 to CHF 14,563,666.40 by cancelling 1,836,404 registered shares. The effective date of the capital reduction was June 15, 2010. In addition, the shareholders approved an increase in the authorized share capital to a new maximum of CHF 1,000,000, allowing for enhanced financial flexibility for the company in its future capital management and an increase in the contingent share capital to a new maximum of CHF 500,000 which can be issued to employees of Zurich Financial Services Ltd and its subsidiaries in connection with employee participation plans. During the years 2011 and 2010, a total of 798,926 shares and 950,232 shares, respectively, were issued to employees from contingent capital.

b) Authorized share capital

Until March 30, 2012, the Board of Zurich Financial Services Ltd is authorized to increase the share capital by an amount not exceeding CHF 1,000,000 by issuing up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the commencement of entitlement to dividends.

The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with a subsequent offer of those shares to current shareholders. The Board may allow the expiry of pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or withdraw the pre-emptive rights of shareholders and to allocate them to third parties if the shares are to be used for the take-over of an enterprise, or parts of an enterprise or of participations or if issuing shares for the financing including re-financing of such transactions, or for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges.

c) Contingent share capital

Capital market instruments and option rights to shareholders

The share capital of Zurich Financial Services Ltd may be increased by an amount not exceeding CHF 1,000,000 by the issuance of up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each (i) by exercising conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services Ltd or one of its Group companies in national or international capital markets; and/or (ii) by exercising option rights which are granted to current shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board of Directors is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered

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at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at the then current convertible bond or warrant issue conditions.

The conversion rights are exercisable during a maximum period of ten years and option rights for a maximum period of seven years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions whereby, for shares of Zurich Financial Services Ltd, the quoted share price is to be used as a basis.

Employee participation

On January 1, 2011, and January 1, 2010, the contingent share capital, to be issued to employees of Zurich Financial Services Ltd and Group companies, amounted to CHF 470,836 and CHF 264,383 or 4,708,363 and 2,643,831 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each.

During 2011 and 2010, 798,926 shares and 950,232 shares, respectively, were issued to employees from contingent share capital under the program described above. Of the total 798,926 registered shares issued to employees during the year 2011, 607,254 shares were issued in the period from January 1, 2011 to March 31, 2011 and 191,672 registered shares were issued as from April 1, 2011 to December 31, 2011. As a result, on December 31, 2011 and 2010, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Financial Services Ltd and its subsidiaries, amounted to CHF 390,943.70 and CHF 470,836 or 3,909,437 and 4,708,363 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each. Pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board of Directors and takes into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

d) Preferred securities

Table 22.2

Preferred securities

	Preferred securities in USD	Number of securities	Par value in USD
As of December 31, 2009[1]	575,000,000	575,000	1,000
Preferred securities bought back by group companies[2]	(99,390,000)	(99,390)	1,000
As of December 31, 2010[1]	475,610,000	475,610	1,000
Redeemed securities[3]	(475,610,000)	(475,610)	1,000
As of December 31, 2011	–	–	–

[1] The amount is gross of issuance costs of USD 14 million as of December 31, 2010 and 2009.
[2] The amount shows the nominal amount of preferred securities bought back by group companies. The respective movement in the balance sheet deviates from this amount by USD 14 million, representing the gain on this transaction which was recognized within the same line item.
[3] Total redeemed securities, including those bought back by group companies during 2010 amounted to USD 575 million.

In February 2001, the Group placed six series of Trust Capital Securities (Zurich RegCaPS) for a total amount of USD 1,125 million (USD 1,096 million net of issuance costs) with a limited number of qualified institutional and corporate U.S. investors. The securities, which were issued under Rule 144A in the U.S., were perpetual, non-cumulative and had a par value of USD 1,000 each. They had no voting rights, except in certain specified circumstances and were linked to Farmers Group, Inc. Class C shares.

On March 30, 2006, April 11, 2006 and April 18, 2008, the Group redeemed Series I, III and IV of the Zurich RegCaPS, respectively. The liquidation amounts totalled USD 550 million in aggregate. In 2010, the Group repurchased but did not retire securities of Series V in the total amount of USD 47 million and of Series VI in the total amount of USD 53 million. The three remaining series of Zurich RegCaPS were redeemed by the Group on March 30, 2011 (USD 150 million of Series II), on April 4, 2011 (USD 200 million of Series V) and on April 25, 2011 (USD 225 million of Series VI) respectively.

e) Additional paid-in capital

This reserve is not ordinarily available for distribution. However, as of January 1, 2011 a Swiss tax regulation based on the Swiss Corporate Tax reform II became effective, allowing for payments free of Swiss withholding tax to shareholders out of a so called capital contribution reserve, created out of additional paid-in capital. Therefore, amounts qualifying under this regulation can be paid out of additional paid-in capital.

f) Treasury shares

Table 22.3

Treasury shares

number of shares, as of December 31	2011	2010
Treasury shares	1,373,392	1,399,080

Treasury shares comprise shares acquired in the market, primarily held to cover employee and share option plans.

g) Earnings per share

Table 22.4

Earnings per share

for the years ended December 31	Net income attributable to common shareholders (in USD millions)[1]	Weighted average number of shares	Per share (USD)	Per share (CHF)[2]
2011				
Basic earnings per share	**3,763**	**145,790,012**	**25.81**	**22.79**
Effect of potentially dilutive shares related to share-based compensation plans		1,103,836	(0.19)	(0.17)
Diluted earnings per share	**3,763**	**146,893,848**	**25.61**	**22.62**
2010				
Basic earnings per share	**3,416**	**144,844,915**	**23.59**	**24.53**
Effect of potentially dilutive shares related to share-based compensation plans		1,142,920	(0.18)	(0.19)
Diluted earnings per share	**3,416**	**145,987,835**	**23.40**	**24.33**

[1] Excludes the net income attributable to preferred shareholders of USD 4 million and USD 11 million for the years ended December 31, 2011 and 2010, respectively.
[2] The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2011 and 2010, respectively.

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of shares outstanding for the year, excluding the weighted average number of shares held as treasury shares and preferred securities. Diluted earnings per share reflects the effect of potentially dilutive shares.

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23. Employee benefits

The Group had 52,648 and 54,934 employees (full-time equivalents) as of December 31, 2011 and 2010, respectively. Personnel and other related costs incurred for the year ended December 31, 2011 and 2010, were USD 5,890 million and USD 5,427 million, including wages and salaries of USD 4,885 million and USD 4,516 million, respectively.

The Group operates a number of retirement benefit arrangements for employees, the majority of employees belong to defined benefit plans. Other employees participate in defined contribution plans, which provide benefits equal to amounts contributed by both the employer and the employee plus investment returns.

The Group also operates post-employment plans, mainly in the U.S., which provide employees with certain defined post-employment benefits such as medical care and life insurance.

To ensure appropriate governance of the Group's pension and post-employment benefit plans, the Group Pension Committee provides oversight of the Group's benefits policy.

a) Defined benefit plans

Defined benefit pension plans

Employees of the Group's companies are covered by various pension plans, the largest of which are in the UK, U.S., Germany and Switzerland. Certain companies provide defined benefit plans, some of which provide benefits related to employees' service periods and pensionable earnings. Others provide cash balance plans where the participants receive the benefit of the accumulated employer and employee contributions together with additional cash credits in line with the rules of the plan. Eligibility for participation in the various plans is either based on completion of a specified period of continuous service or from the date of commencement of employment.

Most of the Group's defined benefit pension plans are funded through contributions by the Group, and in some cases the employee, to trusts or foundations independent of the Group's finances. In these cases, the annual funding requirements are determined in accordance with local funding and actuarial cost methods. Where plans are not funded, a liability for the accrued pension obligations is recognized in the Group's balance sheet.

For the defined benefit pension plans, total contributions to funded pension plans and benefit payments by the Group are currently estimated at USD 479 million for 2012 compared with USD 496 million estimated in the previous year for 2011. The actual amounts may differ.

Other defined post-employment benefits

Certain of the Group's operating companies provide post-employment benefit programs covering medical care and/or life insurance. Eligibility for the various plans is generally based on completion of a specified period of eligible service and reaching a specified age. The programs typically pay a stated percentage of medical expenses subject to deductibles and other factors. The cost of post-employment benefits is accrued during the employees' service periods. The method of accounting and the frequency of valuations are similar to those for defined benefit pension plans.

The tables below show the funded status of the Group's plans, being the pension plans' assets at fair value less the pension plans' liabilities based on the present value of the obligations. Plans that are wholly unfunded are shown separately from plans that are wholly or partly funded.

Table 23.1

Status of funded defined benefit plans

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

Pensions are long-term by nature. However, short-term variations between long-term actuarial assumptions and actual experience may be positive or negative, resulting in actuarial gains or losses, which are recognized in full in the period in which they occur, and are included in OCI.

Table 23.2

Status of unfunded defined benefit plans

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

Table 23.3

Status of funded and unfunded defined benefit plans

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

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Expense recognized in income

Table 23.4

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

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

Fair value of assets held in funded defined benefit plans

Table 23.5

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

[1] UK annuity policies.

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

Movement in funded and unfunded defined benefit plan obligation

Table 23.6

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

Table 23.7

Movement in fair value of plan assets – funded plans

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

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

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

Table 23.8

Movement in liability for funded and unfunded plans

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

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The movements in actuarial gains and losses due to differences between actual and expected experience on the Group's plan assets and defined benefit obligations, together with the impact of changes in actuarial assumptions to reflect economic conditions at the year end are summarized below:

Actuarial gain/(loss)

Table 23.9

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

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

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

Table 23.10

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

The expected long-term rate of return on assets is derived separately for each of the Group's funded benefit plans. Each major asset class is assigned an expected long-term rate of return, net of investment expenses, appropriate for the environment in which that plan is invested. The overall expected long-term rate of return on assets for a plan is calculated as the weighted average of the expected return for each asset class, weighted by the plan's target allocation to each asset class.

The mortality assumptions in each country have been based on mortality tables in accordance with the general use in that market. Where appropriate these tables make allowance for projected future improvements in life expectancy.

Table 23.11

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

as of December 31	2011	2010
	U.S.	U.S.
Discount rate	5.0%	5.0%
Expected increase in long-term health cost – initial rate	7.7%	7.8%
Expected increase in long-term health cost – ultimate rate	4.8%	4.8%

The actuarial assumptions for healthcare cost trend rates have an impact on the amounts recognized. A one percentage point change in the health care cost trend rates would have the effect on amounts recognized as set out in table 23.12.

Table 23.12

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

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

[1] Below USD 1 million.

b) Defined contribution pension plans

Certain of the Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either based on completion of a specified period of continuous service or the date of commencement of employment. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 10 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 127 million and USD 108 million in 2011 and 2010, respectively.

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24. Share-based compensation and cash incentive plans

The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based compensation plans are based on the provision of the Zurich Financial Services Ltd shares.

a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 487 million and USD 422 million for the years ended December 31, 2011 and 2010, respectively.

b) Share-based compensation plans for employees and executives

The Group encourages employees to own shares in Zurich Financial Services Ltd and has set up a framework based on the implementation of either share options and/or performance share programs. Actual plans are tailored to meet local market requirements.

Table 24.1

Expenses recognized in income

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

The explanations below provide a more detailed overview of the main plans of the Group.

Employee share plans

Share Incentive Plan for employees in the UK

The Group established an Inland Revenue approved Share Incentive Plan and launched the partnership shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Financial Services Ltd shares at the prevailing market price out of their gross earnings. There were 252 and 274 participants in the plan as of December 31, 2011 and 2010, respectively. The Group also operates the profit-sharing element of the Share Incentive Plan (reward shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on the business operating profit (BOP) after tax for the year, for the business unit of each participating employee. Individual awards are subject to a maximum of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,000. The total number of participating employees in the reward share element of the plans as of December 31, 2011 and 2010 was 4,463 and 4,775 respectively.

Share Incentive Plans for employees in Switzerland

Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is equivalent to CHF 3,500 per employee per annum. During 2011, 5,448 employees participated in the Employee Incentive Plan compared with 5,488 in 2010. For the years ended December 31, 2011 and 2010, 1,084 and 1,372 employees, respectively, received shares under the 2010 and 2009 employee performance share plan.

Share-based compensation plans for executives

The Group operates long-term incentive plans for selected executives. These plans comprise the allocation of a target number of shares and/or share options with the vesting of these share and option grants being subject to the achievement of specific financial performance goals.

With effect from 2011, share option grants were discontinued. Those option grants made in the period up to and including 2010 continue to earn out in accordance with the terms and conditions of those grants. The Group can also make restricted share grants to selected employees, which provide share awards if the individual remains employed with the Group on selected dates in the future.

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

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

c) Further information on performance share and option plans

Table 24.2

Movements in options granted under the various equity participation plans

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

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

Table 24.3

Share options exercised during the period

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

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Table 24.4

Range of exercise prices of options outstanding

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

Table 24.5

Options and shares granted during the period

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

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

The shares granted during the year are the target allocations made under the performance share plans together with any restricted share awards granted during the year. Whether these grants become vested or not will depend on whether the performance metrics are achieved. If the performance metrics change from the initial assumptions, the expense is adjusted.

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

Table 24.6

Black-Scholes assumptions for fair value of options

	2010
Share price, in CHF[1]	260
Exercise price, in CHF	260
Assumed volatility	25.55%
Risk-free interest rate	2.00%
Expected dividend yield	6.10%
Contracted option life	7 years

[1] Share price as at date of grant.

The risk-free interest rate was determined by using the seven year CHF swap rate applicable in 2010. The implied volatility was determined based on the average of a number of several independent quotes.

25. Contingent liabilities, contractual commitments and financial guarantees

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

Quantifiable commitments and contingencies

Table 25.1

in USD millions, as of December 31	**2011**	2010
Commitments under investment agreements	4,037	4,100
Less funded commitments	(3,586)	(3,513)
Remaining commitments under investment agreements	451	587
Guarantees and letters of credit[1]	10,387	9,544
Future operating lease commitments	1,169	1,016
Undrawn loan commitments	57	149
Other commitments and contingent liabilities	7	88

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

Commitments under investment agreements

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis.

Guarantees and letters of credit

USD 8,691 million of the USD 10,387 million for financial guarantees and letters of credit as of December 31, 2011 relate to guarantees in the aggregate amount of GBP 5,595 million provided to the directors of a fully owned subsidiary in connection with the rationalization of the Group's top legal holding structure which resulted in the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009. These guarantees will expire in August 2015. In 2011, an additional USD 738 million relate to guarantees in the aggregate amount of GBP 475 million provided to the directors of a fully owned subsidiary in connection with the repatriation of capital.

The Group knows of no event of default that would require it to satisfy financial guarantees. Irrevocable letters of credit have been issued to secure certain reinsurance contracts.

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

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

Commitments under lease agreements

The Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 141 million and USD 187 million for the years ended December 31, 2011 and 2010, respectively.

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

Table 25.2

in USD millions, as of December 31	**2011**	2010
< 1 year	192	206
1 to 2 years	192	171
2 to 3 years	168	138
3 to 4 years	154	121
4 to 5 years	142	112
> 5 years	322	267
Total	**1,169**	1,016

Indemnity agreements

The Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (now Scor Holding (Switzerland) AG) and its successor companies' net exposure for losses arising out of the September 11, 2001 World Trade Center event in New York. As of December 31, 2011 the Group has recorded provisions of USD 44 million, for losses in excess of USD 289 million.

Other contingent liabilities

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

The Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA- by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available as of December 31, 2011 is estimated to amount to approximately USD 131 million.

In common with other groups writing life assurance business in the UK, the Group remains exposed to a number of Conduct of Business issues. While provisions are maintained which reflect management's best estimate at the balance sheet date of the probable costs and expenses of resolving these matters, significant uncertainty regarding the ultimate cost remains. The main area of uncertainty concerns complaints related to sales advice. The key assumptions used to derive the complaint provisions are the volume of complaints, both those already recorded and an assumption as to the level of future complaints, the percentage of complaints which will be successful (the uphold rate), the average redress payable per complaint and the expenses of reviewing each case or complaint. The assumptions used to set the provisions have been based on actual recent experience.

In 2003, the Group completed the divestment of various asset management operations. As part of these agreements, the Group guaranteed certain minimum levels of "assets under management" to the acquirers. The guarantees provide that if the "assets under management" fall below those defined levels under certain conditions, the Group may be required to compensate the acquirers.

Pledged assets

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

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

Legal proceedings and regulatory investigations

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

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd (ZIC) and Orange Stone Reinsurance

Dublin (Orange Stone) are named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company (Home), plead claims for fraudulent transfer, alter ego liability and unfair business practices relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contend that this forced Home into liquidation. The plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses. The trial commenced on November 1, 2010, and trial testimony has now concluded. Closing arguments are scheduled for February 2012.

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

Zurich Financial Services (now Zurich Financial Services Ltd, ZFS) is a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium (now Scor Holding (Switzerland) AG). On July 25, 2008, ZFS and the class-action plaintiffs entered into an amended stipulation of settlement that called for a payment of USD 28 million to settle the case in two parts on behalf of all persons and entities who had purchased Converium securities between January 7, 2002 and September 2, 2004: one settlement in the U.S. court, covering all U.S. persons and entities, and all other persons who had purchased Converium securities on U.S. markets, and another settlement in the Amsterdam Court of Appeal, in the Netherlands, covering all non-U.S. persons and entities who had purchased Converium securities on non-U.S. markets. The U.S. and Dutch settlements are both subject to court approval and are independent of each other. The U.S. court approved the U.S. settlement on December 12, 2008, and the ruling became final in June 2009. On January 17, 2012, the Amsterdam Court of Appeal approved the non-U.S. settlement. Under Dutch law, only the parties jointly can appeal, and ZFS will not join in an appeal.

ZFS is a defendant in a putative class action pending in California state court captioned Benjamin Fogel v. Farmers Group, Inc (Fogel Case). The case, originally filed in August 2003, is brought on behalf of a putative class of all policyholders of the Farmers Exchanges from 1999 to the present. The plaintiff alleges that Farmers Group, Inc. and certain of its affiliates (Farmers), which acted as the attorneys-in-fact for policyholders of the Farmers Exchanges, collected excessive and unreasonable management fees. The complaint seeks, amongst other things, disgorgement, as well as damages and injunctive relief. In February 2005, the trial court granted Farmers' motion for summary judgment, and the plaintiff appealed. In 2008, a California appellate court reversed the trial court's ruling and reinstated the litigation. On September 9, 2009, the plaintiff filed a motion seeking to certify a nationwide class of all policyholders of the Farmers Exchanges since August 1, 1999. On October 7, 2010, the Group announced that it had agreed in principle to a proposed nationwide settlement of the Fogel Case. Under the terms of the proposed settlement, a sum of USD 455 million will be made available to approximately 12.5 million policyholders who may qualify for a distribution under the settlement, with any residual amount going to the Farmers Exchanges. The Group will also pay attorneys' fees to class action counsel of up to USD 90 million, as well as the costs of administering the settlement. On December 12, 2010, the parties executed the settlement agreement, all terms of which are subject to the court's final approval. On January 12, 2011, the parties filed a motion seeking preliminary approval of the proposed settlement. On February 3, 2011, the court granted a motion to intervene by a class member who objects to certain aspects of the proposed settlement. The hearing on the motion for preliminary approval was held on March 2, 2011, and the court granted the motion. Notices were mailed and published to class members, and a number of objections and opt-out requests were submitted. On October 31, 2011, the court granted a motion by the State of Montana to intervene so it could object to certain aspects of the proposed settlement. On December 21, 2011, the court granted final approval of the settlement,

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and it reduced the total award of attorneys' fees, expenses, and incentive awards to approximately USD 74 million (instead of USD 90 million). A 60-day appeal period commenced following entry of the court's judgment on December 21, 2011. Notices of appeal have been filed by intervenor State of Montana and one class member.

While the Group believes that it is not a party to, nor are any of its subsidiaries the subject of, any unresolved current legal proceedings, claims, litigation and investigations that will have a material adverse effect on the Group's consolidated financial condition, proceedings are inherently unpredictable, and it is possible that the outcome of any proceeding could have a material impact on results of operations in the particular reporting period in which it is resolved.

26. Fair value of financial assets and financial liabilities

The following tables compare the fair value of financial assets and financial liabilities with their carrying value.

Table 26.1a

Fair value (FV) and carrying value of financial assets and financial liabilities – Group investments and other Non-unit-linked

in USD millions, as of December 31	Total fair value		Total carrying value	
	2011	2010	**2011**	2010
Cash and cash equivalents	8,768	8,182	8,768	8,182
Available-for-sale securities				
Debt securities	129,306	128,257	129,306	128,257
Equity securities	7,973	9,798	7,973	9,798
Total available-for-sale securities	137,279	138,055	137,279	138,055
Securities at FV through profit or loss				
Trading				
Debt securities	50	43	50	43
Equity securities	438	473	438	473
Designated at FV				
Debt securities	7,971	6,826	7,971	6,826
Equity securities	2,816	3,458	2,816	3,458
Total securities at FV through profit or loss	11,274	10,799	11,274	10,799
Derivative assets	2,060	1,673	2,060	1,673
Held-to-maturity debt securities	6,182	5,582	5,535	5,129
Investments in associates and joint ventures	161	186	161	188
Loans and receivables				
Mortgage loans	11,607	12,221	11,058	11,851
Other loans	13,623	14,340	11,842	13,419
Deposits made under assumed reinsurance contracts	2,703	2,817	2,711	2,837
Mortgage loans given as collateral	223	739	223	743
Receivables	12,268	13,159	12,302	13,195
Total loans and receivables	40,423	43,276	38,136	42,046
Total financial assets	**206,147**	**207,754**	**203,213**	**206,072**
Financial liabilities at FV through profit or loss				
Trading:				
Obligation to repurchase securities	(1,794)	(3,330)	(1,794)	(3,330)
Derivative liabilities	(663)	(1,002)	(663)	(1,002)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(833)	(592)	(834)	(592)
Liabilities related to investment contracts with DPF	(5,337)	(4,875)	(5,607)	(5,134)
Senior debt	(6,553)	(6,750)	(6,541)	(6,453)
Subordinated debt	(5,153)	(5,089)	(5,476)	(5,004)
Deposits received under ceded reinsurance contracts	(1,460)	(1,231)	(1,543)	(1,362)
Collateralized loans	(223)	(739)	(223)	(743)
Other financial liabilities	(1,897)	(3,694)	(1,900)	(3,698)
Total financial liabilities	**(23,912)**	**(27,302)**	**(24,581)**	**(27,318)**

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

Table 26.1b

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

The methods and assumptions used by the Group in determining fair values of financial assets and liabilities are set out in note 4. Depending on the valuation techniques used and whether the underlying assumptions are based on observable market data, financial instruments carried at fair value are classified under the following three levels (the fair value hierarchy).

Level 1 – this category includes financial assets for which fair values are determined based on quoted prices (unadjusted) in active markets for identical instruments. A market is considered active only if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Group has classified under Level 1 the majority of common stocks, government bonds and certain corporate bonds and investments in unit trusts that are traded in very liquid markets.

Level 2 – this category includes financial assets and liabilities for which fair values are determined using valuation techniques with all significant inputs based on observable market data. Depending on the nature of the instruments and the market in which they are traded, examples of observable market data may include quoted prices, broker quotes, interest rates, yield curves etc. The Group has classified under Level 2 the majority of corporate bonds, investments in unit trusts, agency-backed and senior tranches of asset-backed securities, and OTC derivatives. While markets for these instruments do not meet the strict requirements to be classified as active, they offer sufficient transaction volumes and, therefore, observable market data to enable the Group to determine their fair value. The Group has also classified under Level 2 liabilities related to unit-linked investment contracts and obligations to repurchase securities.

Level 3 – this category includes financial assets and liabilities for which fair values are determined using valuation techniques with at least one significant input not being based on observable market data. In circumstances when there is little, if any, market activity for a certain instrument, the Group is required to develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability. This would normally apply in the case of investments in hedge funds, private equity funds, asset-backed securities for which currently very limited market activity is observed, and long-dated derivatives. The effect of changes in the internal valuation inputs to reasonably possible alternative values is disclosed in tables 26.4a and 26.4b.

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

Fair Value Hierarchy – current period

Table 26.2a

in USD millions, as of December 31, 2011	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	40,038	87,006	2,261	129,306
Equity securities	3,345	3,651	977	7,973
Total available-for-sale securities	43,383	90,657	3,239	137,279
Securities at FV through profit or loss				
Trading				
Debt securities	35	15	–	50
Equity securities	–	40	398	438
Designated at FV				
Debt securities	3,155	4,626	189	7,971
Equity securities	483	1,068	1,265	2,816
Total securities at FV through profit or loss	3,673	5,749	1,851	11,274
Derivative assets	4	2,023	33	2,060
Total	**47,060**	**98,429**	**5,123**	**150,613**
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	–	(1,794)	–	(1,794)
Derivative liabilities	(8)	(603)	(52)	(663)
Total	**(8)**	**(2,397)**	**(52)**	**(2,457)**

Fair Value Hierarchy – prior period

Table 26.2b

in USD millions, as of December 31, 2010	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	38,827	86,036	3,394	128,257
Equity securities	3,414	3,548	2,836	9,798
Total available-for-sale securities	42,241	89,584	6,230	138,055
Securities at FV through profit or loss				
Trading				
Debt securities	41	2	–	43
Equity securities	–	40	433	473
Designated at FV				
Debt securities	2,847	3,789	191	6,826
Equity securities	516	1,397	1,545	3,458
Total securities at FV through profit or loss	3,404	5,227	2,169	10,799
Derivative assets	4	1,623	46	1,673
Total	**45,649**	**96,433**	**8,445**	**150,527**
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	–	(3,330)	–	(3,330)
Derivative liabilities	(5)	(973)	(25)	(1,002)
Total	**(5)**	**(4,302)**	**(25)**	**(4,332)**

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

Table 26.3a

in USD millions	Available-for-sale securities		Securities at FV through profit or loss				
			Trading	Designated at FV			
	Debt securities	Equity securities	Equity securities	Debt securities	Equity securities	Derivative assets	Derivative liabilities
As of January 1, 2011	3,394	2,836	433	191	1,545	46	(25)
Realized gains/(losses) recognized in income[1]	26	500	6	1	23	–	–
Unrealized gains/(losses) recognized in income[1]	(12)	(61)	19	(10)	28	16	(27)
Unrealized gains/(losses) recognized in other comprehensive income	(14)	(277)	–	–	–	–	–
Purchases	354	630	95	16	34	–	–
Sales/redemptions/settlements	(1,539)	(1,187)	(155)	(16)	(369)	–	–
Transfers into Level 3	79	9	–	1	–	–	–
Transfers out of Level 3	(40)	(1,566)	–	–	–	(27)	–
Foreign currency translation effects	14	92	(1)	7	4	(1)	–
As of December 31, 2011	**2,261**	**977**	**398**	**189**	**1,265**	**33**	**(52)**

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

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

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

Table 26.3b

in USD millions	Available-for-sale securities		Securities at FV through profit or loss				
			Trading	Designated at FV			
	Debt securities	Equity securities	Equity securities	Debt securities	Equity securities	Derivative assets	Derivative liabilities
As of January 1, 2010	2,977	965	844	220	2,305	40	(37)
Realized gains/(losses) recognized in income[1]	22	12	2	11	47	–	–
Unrealized gains/(losses) recognized in income[1]	(81)	(72)	(3)	32	106	5	12
Unrealized gains/(losses) recognized in other comprehensive income	545	727	–	–	–	–	–
Purchases	506	1,082	63	1	92	–	–
Sales/redemptions/settlements	(964)	(56)	(484)	(79)	(1,003)	–	–
Transfers into Level 3	498	2	–	23	–	–	–
Transfers out of Level 3	(104)	–	–	(12)	–	–	–
Foreign currency translation effects	(6)	176	11	(5)	(2)	2	–
As of December 31, 2010	**3,394**	**2,836**	**433**	**191**	**1,545**	**46**	**(25)**

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

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Sensitivity of fair values reported for Level 3 instruments to changes in key assumptions

As of December 31, 2011 and 2010 under Level 3, the Group classified asset-backed securities (ABSs) amounting to USD 2.5 billion and USD 3.6 billion, respectively. These ABSs include non-agency backed securities for which the limited market activity observable during the year required the Group's external pricing providers to make certain internal valuation assumptions. To determine the fair value of these investments, pricing providers use valuation models that are based on an expected present value technique.

The key assumptions driving the valuation of these investments include discount margins and rates for prepayment, recovery and default. The effect on reported fair values of using reasonably possible alternative values for each of these assumptions, while the other key assumptions remain unchanged, is disclosed in tables 26.4a and 26.4b. While tables 26.4 illustrate the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions, may differ significantly between investments, given their different terms and circumstances.

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments, under the current market conditions, and its results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of these investments. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Group's view of expected future changes in the fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

Table 26.4a

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

as of December 31, 2011	Less favorable values (relative change)	Decrease of reported fair value USD millions	More favorable values (relative change)	Increase of reported fair value USD millions
Key assumptions				
Discount margins	+20%	(85)	–20%	90
Prepayment rates	–20%	(9)	+20%	10
Recovery rates	–20%	(1)	+20%	1
Default rates	+20%	(3)	–20%	3

Table 26.4b

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

as of December 31, 2010	Less favorable values (relative change)	Decrease of reported fair value USD millions	More favorable values (relative change)	Increase of reported fair value USD millions
Key assumptions				
Discount margins	+20%	(105)	–20%	110
Prepayment rates	–20%	(35)	+20%	33
Recovery rates	–20%	(32)	+20%	31
Default rates	+20%	(6)	–20%	3

As of December 31, 2011 and 2010, under Level 3 the Group also classified investments in hedge funds and private equity funds amounting to USD 1.9 billion and USD 2.2 billion, respectively. These investments are valued based on regular reports from the issuing funds and fair values are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments. Investments in hedge funds and private equity funds have not been included in the sensitivity analysis due to the large number of valuation assumptions that while, in total, have a significant effect on the fair value of these investments, when considered individually, the impact of changing them to reasonably possible alternative values would not be significant.

Unit-linked financial instruments

Fair Value Hierarchy – current period

Table 26.5a

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

Fair Value Hierarchy – prior period

Table 26.5b

in USD millions, as of December 31, 2010	Level 1	Level 2	Level 3	Total
Investments at FV through profit or loss				
Designated at FV				
Debt securities	4,421	4,812	143	9,376
Equity securities	47,644	33,471	4,650	85,765
Other loans	–	7,182	–	7,182
Total investments at FV through profit or loss	52,065	45,464	4,793	102,322
Derivative assets	–	102	2	104
Total	**52,065**	**45,567**	**4,795**	**102,427**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	–	(44,941)	–	(44,941)
Derivative liabilities	–	(2)	(2)	(3)
Total	**–**	**(44,942)**	**(2)**	**(44,944)**

Consolidated financial statements *continued*

Table 26.6a

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

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

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

Table 26.6b

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

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

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

27. Related party transactions

In the normal course of business, the Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the Group, either individually or in aggregate. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

The table below sets out related party transactions with equity method accounted investments, as well as other related parties, such as the Group's distribution partners of the jointly owned companies in Spain (Banco Sabadell S.A.) and Latin America (Banco Santander S.A.), reflected in the consolidated income statements and consolidated balance sheets.

Related party transactions included in the Consolidated financial statements

Table 27.1

in USD millions	**2011**	2010
For the years ended December 31,		
Net earned premiums and policy fees	28	12
Net investment income	(190)	(104)
Net investment expense	(1)	(1)
Other income/(expense)	(1)	(37)
Losses and loss adjustment expenses	(4)	(6)
Administrative and other operating expenses	(5)	(4)
Consolidated balance sheet as of December 31,		
Cash and cash equivalents	172	475
Other loans	442	537
Total unit-linked investments	3,447	3,196
Receivables	6	1
Policyholders' collateral and other loans	21	9
Reserves for losses and loss adjustment expenses	(8)	(11)

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

Related party transactions – key personnel

Table 27.2

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

As of December 31, 2011 and 2010 there were no loans, advances or credits outstanding from Members of the Group Executive Committee. Outstanding loans and guarantees granted to Members of the Board of Directors amounted to USD 3 million for the year ended December 31, 2011 and USD 2 million for the year ended December 31, 2010. The terms "Members of the Board of Directors" and "Members of the Group Executive Committee" in this context include the individual as well as members of their respective households. The above figures include the fees paid to Members of the Board of Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd, which were USD 5 million and USD 3 million for the years ended December 31, 2011 and December 31, 2010, respectively.

No provision for non-repayment has been required in 2011 and 2010 for the loans or guarantees made to Members of the Group Executive Committee.

Information required by art. 663bbis and art. 663c paragraph 3 of the Swiss Code of Obligation is disclosed in the Financial Statements of the holding company.

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

28. Farmers Exchanges

Farmers Group, Inc. and its subsidiaries (FGI) provide certain non-claims related management services to the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. a wholly owned subsidiary of the Group. In addition, the Group has the following relationships with the Farmers Exchanges.

a) Surplus note and certificates of contribution issued by the Farmers Exchanges
As of December 31, 2011 and 2010, FGI and other Group companies held the following surplus notes and certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 28
Surplus Notes

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

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

Conditions governing payment of interest and repayment of principal are outlined in the surplus notes and certificates of contribution. Generally, repayment of principal may be made only when the issuer has an appropriate amount of surplus, and then only after approval is granted by the issuer's governing board and the appropriate state insurance regulatory department in the U.S. In addition, payment of interest may generally be made only when the issuer has an appropriate amount of surplus and then only after approval is granted by the appropriate state insurance regulatory department in the U.S.

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

Auto Physical Damage Quota Share reinsurance agreement
The Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges provides for annual ceded premiums of USD 1 billion with 20.0 percent assumed by Farmers Re Co (USD 200 million) and 80.0 percent assumed by ZIC (USD 800 million), a 25.8 percent ceding commission for acquisition expenses, and an 8.2 percent ceding commission for unallocated loss adjustment expenses. In addition, Farmers Re Co and ZIC assume a quota share percentage of ultimate net losses sustained by the Farmers Exchanges in their APD lines of business. The APD agreement also includes provisions for additional experience commissions that will depend on loss experience and recoveries below a specified ratio for each year. This experience commission arrangement limits Farmers Re Co and ZIC's potential underwriting gain on the assumed business to 2.0 percent of premiums assumed plus 20.0 percent of the underwriting gain resulting from a combined ratio under 98.0 percent. The APD agreement terminated as of December 31, 2011 and was renewed thereafter.

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

All Lines Quota Share reinsurance agreement
Certain of the Farmers Exchanges participate in an All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Re Co and ZIC which has been amended over the years, with the participation ratio at 35 percent as

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of December 31, 2009. The All Lines agreement provided for a cession of a quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied. Effective June 30, 2010, the All Lines agreement was cancelled subsequent to which Farmers Re Co and ZIC entered into a new 25.0 percent All Lines agreement under which each assumes a percentage of all lines of business written by the Farmers Exchanges, prospectively. Under this new All Lines agreement, Farmers Re Co and ZIC assumed a 5.0 percent and 20.0 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied. In addition, under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1 billion. As a result, Farmers Re Co and ZIC are subject to a maximum annual catastrophe loss of USD 50 million and USD 200 million, respectively. The All Lines agreement, which can be terminated after 90 days notice by any of the parties, also provides for the Farmers Exchanges to receive a provisional ceding commission of 25.7 percent of premiums for acquisition expenses, 9.0 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses. Unearned premiums totaling USD 614 million were transferred from Farmers Re Co and ZIC to the Farmers Exchanges as a result of their decreased participation in the All Lines agreement through June 30, 2010. In addition, the Farmers Exchanges remitted USD 158 million of reinsurance commissions to Farmers Re Co and ZIC for acquisition expenses due to the decreased participation in the All Lines agreement.

Effective December 31, 2010, the All Lines agreement was modified and the participation ratio was decreased from 25.0 percent to 12.0 percent. In addition to this change, the provisional ceding commission for acquisition expenses was increased by 1.0 percent from 25.7 percent to 26.7 percent, while the Farmers Exchanges' catastrophe losses were changed from a maximum of USD 1.0 billion to a maximum of USD 1.2 billion. Unearned premiums totaling USD 693 million were transferred from Farmers Re Co and ZIC to the Farmers Exchanges as a result of their decreased participation in the All Lines agreement effective December 31, 2010. In addition, the Farmers Exchanges remitted USD 185 million of reinsurance commissions to Farmers Re Co and ZIC for acquisition expenses due to the decreased participation in the All Lines agreement.

Effective December 31, 2011, the All Lines agreement was amended subsequent to which Farmers Re Co and ZIC entered into a 20.0 percent All Lines agreement, under which each assumes a percentage of all lines of business written by the Farmers Exchanges, prospectively. Under the All Lines agreement, which amended the 12.0 percent All Lines agreement in effect since December 31, 2010, Farmers Re Co and ZIC assume a 4.0 percent and 16.0 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied. In addition, under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1.2 billion. As a result, Farmers Re Co and ZIC are subject to a maximum annual catastrophe loss of USD 48.0 million and USD 192 million, respectively. The All Lines agreement, which can be terminated after 90 days notice by any of the parties, also provides for the Farmers Exchanges to continue to receive a provisional ceding commission of 26.7 percent of premiums for acquisition expenses, 9.0 percent of premiums for unallocated loss adjustment expense and 5.3 percent of premiums for other expenses. Unearned premiums totaling USD 527 million were transferred from the Farmers Exchanges to Farmers Re Co and ZIC as a result of their increased participation in the All Lines agreement as from December 31, 2011. In addition, Farmers Re Co and ZIC remitted USD 141 million of reinsurance commissions to the Farmers Exchanges for acquisition expenses due to the increased participation in the All Lines agreement.

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

29. Segment information

The Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both businesses and geography. The Group's operating segments have been identified on the basis of the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. Segment information is presented accordingly. The Group's reportable segments are as follows:

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

Global Life pursues a strategy of providing market-leading unit-linked, protection and corporate propositions through global distribution and proposition pillars to develop leadership positions in its chosen segments.

Farmers provides through Farmers Group, Inc. and its subsidiaries (FGI) non-claims related management services to the Farmers Exchanges. FGI receives fee income for the provision of services to the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. a wholly owned subsidiary of the Group. This segment also includes the Farmers Re business, which includes only reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal lines and small commercial lines business in the U.S.

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

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

Non-Core Businesses include insurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. In addition, Non-Core Businesses includes the Group's banking activities. Non-core businesses are mainly situated in the U.S., Bermuda, the United Kingdom and Ireland.

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

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

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

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

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

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

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The segment information includes the Group's internal performance measure, business operating profit (BOP). This measure is the basis on which business units are managed. It indicates the underlying performance of the business units by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains on investments and impairments (except for the capital markets and banking operations included in Non-Core Businesses and investments in hedge funds and certain securities held for specific economic hedging purposes), policyholders' share of investment results for the life businesses, non-operational foreign exchange movements, and significant items arising from special circumstances, including restructuring charges, charges for litigation outside the ordinary course of business and gains and losses on divestments of businesses.

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Business operating profit by business segment

Table 29.1

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2011	2010	**2011**	2010
Revenues				
Direct written premiums[1]	32,379	30,906	9,335	9,993
Assumed written premiums	2,193	2,161	97	120
Gross Written Premiums	34,572	33,066	9,432	10,113
Policy fees	–	–	2,152	2,179
Gross written premiums and policy fees	34,572	33,066	11,583	12,292
Less premiums ceded to reinsurers	(5,325)	(5,100)	(682)	(754)
Net written premiums and policy fees	29,247	27,966	10,901	11,539
Net change in reserves for unearned premiums	(171)	(122)	(36)	(26)
Net earned premiums and policy fees	29,076	27,844	10,865	11,513
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,807	2,913	4,575	4,390
Net investment income on Group investments	2,799	2,867	4,146	3,892
Net capital gains/(losses) and impairments on Group investments	8	46	429	498
Net investment result on unit-linked investments	–	–	(3,548)	9,639
Other income	922	709	1,012	918
Total BOP revenues	32,805	31,467	12,904	26,460
of which: inter-segment revenues	*(576)*	*(414)*	*(343)*	*(296)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	20,914	19,795	9,503	10,140
Losses and loss adjustment expenses, net	20,894	19,773	59	76
Life insurance death and other benefits, net	20	22	10,208	9,773
(Decrease)/increase in future life policyholders' benefits, net[1]	–	1	(764)	291
Policyholder dividends and participation in profits, net	9	3	(2,826)	10,302
Income tax expense/(benefit) attributable to policyholders	–	–	(242)	462
Underwriting and policy acquisition costs, net	5,587	5,409	2,029	1,503
Administrative and other operating expense (excl. depreciation/amortization)	3,673	3,134	2,394	1,883
Interest credited to policyholders and other interest	24	39	395	428
Restructuring provisions and other items not included in BOP	(238)	(306)	(130)	(179)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	29,969	28,074	11,123	24,539
Business operating profit (before interest, depreciation and amortization)	**2,836**	**3,392**	**1,781**	**1,922**
Depreciation and impairments of property and equipment	86	83	30	32
Amortization and impairments of intangible assets	278	398	315	303
Interest expense on debt	209	222	56	71
Business operating profit before non-controlling interests	2,264	2,689	1,380	1,516
Non-controlling interests	(1)	22	26	42
Business operating profit	**2,265**	**2,667**	**1,353**	**1,474**
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	402	299	296	96

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

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	–	–	–	–	150	162	–	–	41,864	41,061
	3,529	4,194	141	137	144	142	(220)	(256)	5,884	6,498
	3,529	4,194	141	137	294	304	(220)	(256)	47,748	47,559
	–	–	–	–	300	227	–	–	2,452	2,406
	3,529	4,194	141	137	594	531	(220)	(256)	50,200	49,965
	–	–	(59)	(54)	(704)	(32)	220	256	(6,550)	(5,683)
	3,529	4,194	82	84	(110)	499	–	–	43,650	44,282
	(545)	1,380	1	–	2	2	–	(1)	(751)	1,234
	2,984	5,574	83	84	(108)	502	–	(1)	42,899	45,516
	2,767	2,778	–	–	–	–	–	–	2,767	2,778
	133	156	524	525	987	377	(847)	(857)	8,180	7,506
	133	156	524	525	429	509	(847)	(857)	7,185	7,092
	–	–	–	–	558	(131)	–	–	995	413
	–	–	–	–	4	454	–	–	(3,544)	10,093
	64	91	920	784	105	164	(1,534)	(1,225)	1,488	1,442
	5,948	8,600	1,527	1,394	988	1,498	(2,381)	(2,083)	51,790	67,335
	(67)	*(70)*	*(1,336)*	*(1,191)*	*(59)*	*(113)*	*2,381*	*2,083*	–	–
	2,105	3,708	58	72	475	769	–	–	33,054	34,484
	2,105	3,708	1	2	(622)	62	3	–	22,439	23,620
	–	–	57	69	618	683	–	–	10,904	10,548
	–	–	(1)	–	479	24	(3)	–	(289)	316
	–	–	–	–	133	496	–	(1)	(2,685)	10,801
	–	–	–	–	–	–	–	–	(242)	462
	902	1,733	16	6	9	8	(20)	(10)	8,523	8,649
	1,290	1,900	1,193	980	213	188	(1,490)	(1,195)	7,274	6,890
	–	1	10	3	57	62	(7)	(3)	479	529
	(10)	(602)	(107)	12	1	21	–	–	(483)	(1,055)
	4,288	6,739	1,170	1,072	888	1,544	(1,517)	(1,209)	45,920	60,759
	1,660	**1,860**	**357**	**322**	**100**	**(46)**	**(864)**	**(874)**	**5,870**	**6,576**
	56	65	14	20	5	4	–	–	191	205
	118	109	93	64	1	8	–	–	805	882
	–	–	1,085	1,039	100	98	(864)	(874)	586	556
	1,486	1,686	(835)	(802)	(7)	(157)	–	–	4,288	4,934
	–	–	–	(1)	1	1	–	–	26	64
	1,486	**1,686**	**(835)**	**(801)**	**(8)**	**(157)**	**–**	**–**	**4,261**	**4,870**
	171	236	124	91	–	24	–	–	994	747

Consolidated financial statements *continued*

Reconciliation of BOP to net income after income taxes

Table 29.2

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2011	2010	**2011**	2010
Business operating profit	**2,265**	**2,667**	**1,353**	**1,474**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	526	281	407	14
Net gain/(loss) on divestments of businesses	(5)	5	16	33
Restructuring provisions	(145)	(71)	(69)	(21)
Net income/(expense) on intercompany loans[3]	(49)	(55)	(14)	(37)
Other adjustments	(45)[4]	(180)[4]	(48)[5]	(121)
Add back:				
Business operating profit attributable to non-controlling interests	(1)	22	26	42
Net income before shareholders' taxes	**2,547**	**2,668**	**1,672**	**1,384**
Income tax expense/(benefit) attributable to policyholders	–	–	(242)	462
Net income before income taxes	**2,547**	**2,668**	**1,431**	**1,845**
Income tax expense (attributable to policyholders and shareholders)				
Net income after taxes				

1 Includes USD 570 million settlement costs related to the FOGEL case (see note 25).
2 Includes USD 100 million charitable commitment to the Zurich Foundation.
3 The impact on Group level relates to foreign currency translation differences.
4 Includes USD 85 million and USD 114 million as of December 31, 2011 and 2010, respectively, of software impairments related to a restructuring program impacting several European countries (see notes 17 and 19).
5 Includes USD 67 million related to a voluntary settlement of an insurance liability in Italy.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	1,486	**1,686**	**(835)**	**(801)**	**(8)**	**(157)**	**4,261**	**4,870**
	(12)	(9)	230	168	37	31	1,187	484
	–	–	(5)	–	–	1	6	38
	(9)	(17)	–	–	–	(1)	(222)	(111)
	–	–	65	86	–	–	2	(5)
	(1)	(585)[1]	(172)[2]	(75)	1	22	(263)	(939)
	–	–	–	(1)	1	1	26	64
	1,464	**1,074**	**(716)**	**(622)**	**31**	**(104)**	**4,998**	**4,401**
	–	–	–	–	–	–	(242)	462
	1,464	**1,074**	**(716)**	**(622)**	**31**	**(104)**	**4,757**	**4,862**
							(965)	(1,355)
							3,792	**3,507**

Financial information

Consolidated financial statements *continued*

Assets and liabilities by business segment

Table 29.3

in USD millions, as of December 31	General Insurance		Global Life	
	2011	2010	**2011**	2010
Assets				
Total Group Investments	84,142	85,967	101,735	100,976
Cash and cash equivalents	8,261	9,024	3,247	2,564
Equity securities	5,275	5,561	4,107	5,201
Debt securities	62,894	64,136	68,055	64,471
Real estate held for investment	2,911	2,940	5,126	4,893
Mortgage loans	1,472	1,495	8,177	8,538
Other loans	3,325	2,806	12,959	15,212
Investments in associates and joint ventures	6	6	65	97
Investments for unit-linked contracts	–	–	93,096	96,139
Total investments	84,142	85,967	194,831	197,116
Reinsurers' share of reserves for insurance contracts	13,440	13,320	2,068	1,997
Deposits made under assumed reinsurance contracts	71	120	19	11
Deferred policy acquisition costs	3,500	3,426	13,011	12,686
Deferred origination costs	–	–	824	866
Goodwill	827	869	413	411
Other intangible assets	1,158	1,208	2,895	3,022
Other assets[1]	14,632	14,743	22,311	7,367
Total assets (after cons. of investments in subsidiaries)	**117,770**	**119,654**	**236,372**	**223,476**
Liabilities				
Liabilities for investment contracts	–	–	50,661	50,912
Reserves for insurance contracts, gross	80,462	80,242	136,248	138,536
Reserves for losses and loss adjustment expenses, gross	64,074	63,864	39	58
Reserves for unearned premiums, gross	15,026	15,084	205	201
Future life policyholders' benefits, gross	92	103	74,162	74,901
Policyholders' contract deposits and other funds, gross	1,269	1,192	14,195	13,397
Reserves for unit-linked contracts, gross	–	–	47,647	49,978
Senior debt	5,354	5,152	948	457
Subordinated debt	1,038	1,700	333	793
Other liabilities[2]	12,913	14,315	30,368	17,960
Total liabilities	**99,767**	**101,408**	**218,558**	**208,659**
Equity				
Common shareholders' equity				
Preferred securities				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				

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

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	4,267	4,526	19,332	20,110	13,119	14,757	(28,211)	(30,438)	194,385	195,898
	580	808	8,596	7,158	2,637	3,148	(14,552)	(14,521)	8,768	8,182
	93	83	1,533	2,597	219	287	–	–	11,226	13,729
	1,295	1,296	4,563	4,070	7,016	7,261	(962)	(980)	142,861	140,254
	132	135	42	45	258	261	–	–	8,468	8,274
	–	–	–	–	1,409	1,819	–	–	11,058	11,851
	2,168	2,204	4,593	6,235	1,495	1,900	(12,697)	(14,937)	11,842	13,419
	–	–	6	5	84	80	–	–	161	188
	–	–	–	–	11,508	11,808	–	–	104,603	107,947
	4,267	4,526	19,332	20,110	24,626	26,565	(28,211)	(30,438)	298,988	303,845
	–	212	–	–	4,509	4,328	(656)	(1,041)	19,361	18,816
	2,141	2,201	–	–	508	530	(28)	(26)	2,711	2,837
	352	167	–	–	1	1	–	–	16,864	16,281
	–	–	–	–	–	–	–	–	824	866
	819	819	–	5	–	–	–	–	2,060	2,104
	1,434	1,453	286	269	1	2	–	–	5,774	5,954
	1,009	1,202	1,906	2,714	1,261	1,149	(1,832)	(2,255)	39,288	24,919
	10,023	**10,581**	**21,525**	**23,097**	**30,906**	**32,575**	**(30,727)**	**(33,759)**	**385,869**	**375,623**
	–	–	–	–	–	–	–	(246)	50,661	50,667
	2,728	2,711	39	57	21,972	22,194	(637)	(1,021)	240,811	242,719
	1,410	1,938	28	46	2,559	2,953	(586)	(752)	67,525	68,107
	1,318	773	4	5	22	25	(9)	(7)	16,567	16,081
	–	–	6	6	5,097	4,569	(42)	(265)	79,314	79,315
	–	–	–	–	2,787	2,839	–	2	18,251	17,430
	–	–	–	–	11,507	11,807	–	–	59,154	61,786
	125	–	22,590	24,064	2,134	2,462	(24,611)	(25,681)	6,541	6,453
	–	–	5,432	5,000	23	170	(1,350)	(2,659)	5,476	5,004
	1,635	2,024	3,149	2,366	4,428	5,026	(4,129)	(4,152)	48,364	37,539
	4,488	**4,735**	**31,209**	**31,487**	**28,557**	**29,852**	**(30,727)**	**(33,759)**	**351,852**	**342,382**
									31,636	31,429
									–	475
									31,636	31,905
									2,380	1,336
									34,017	33,241
									385,869	**375,623**

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General Insurance – Customer segment overview

Table 29.4

in USD millions, for the years ended December 31	Global Corporate		North America Commercial	
	2011	2010	**2011**	2010
Gross written premiums and policy fees	7,949	7,624	9,777	9,728
Net earned premiums and policy fees	5,350	4,902	7,644	7,580
Insurance benefits and losses, net	4,564	3,662	5,126	5,102
Policyholder dividends and participation in profits, net	–	(2)	8	8
Total net technical expenses	1,086	1,036	2,196	2,254
Net underwriting result	(301)	205	315	217
Net investment income	600	567	979	1,097
Net capital gains/(losses) and impairments on investments	2	11	8	35
Net non-technical result (excl. items not included in BOP)	(132)	(41)	(255)	(230)
Business operating profit before non-controlling interests	169	742	1,048	1,118
Non-controlling interests	–	1	–	–
Business operating profit	169	741	1,048	1,118

Ratios, as % of net earned premiums and policy fees				
Loss ratio	85.3%	74.7%	67.0%	67.3%
Expense ratio	20.3%	21.1%	28.8%	29.8%
Combined ratio	105.6%	95.8%	95.9%	97.1%

Europe		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
12,932	12,427	4,425	3,854	401	574	(912)	(1,142)	34,572	33,066
12,647	12,393	3,377	2,902	58	68	–	–	29,076	27,844
8,955	8,958	2,462	1,954	(192)	120	–	–	20,914	19,795
–	(3)	–	–	–	–	–	–	9	3
3,313	3,150	1,180	1,016	22	22	14	(5)	7,811	7,474
379	287	(265)	(68)	228	(74)	(14)	5	342	572
928	919	236	217	57	66	(1)	2	2,799	2,867
(1)	1	–	–	–	–	–	–	8	46
(351)	(438)	(118)	(39)	(44)	(41)	15	(6)	(885)	(796)
954	768	(147)	110	240	(49)	–	–	2,264	2,689
(10)	(6)	9	26	–	–	–	–	(1)	22
964	774	(156)	84	240	(49)	–	–	2,265	2,667
70.8%	72.3%	72.9%	67.3%	nm	nm	n/a	n/a	71.9%	71.1%
26.2%	25.4%	34.9%	35.0%	nm	nm	n/a	n/a	26.9%	26.9%
97.0%	97.7%	107.8%	102.3%	nm	nm	n/a	n/a	98.8%	97.9%

Consolidated financial statements *continued*

General Insurance – Revenues by region

Table 29.5

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

Table 29.6

General Insurance – Non-current assets by region

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

Consolidated financial statements *continued*

Global Life – Overview

Table 29.7

in USD millions, for the years ended December 31	North America		Latin America	
	2011	2010	**2011**	2010
Revenues				
Life insurance deposits	298	220	274	154
Gross written premiums[1]	509	490	650	643
Policy fees	283	282	24	27
Gross written premiums and policy fees	793	772	674	670
Net earned premiums and policy fees	579	558	645	597
Net investment income on Group investments	330	342	134	120
Net capital gains/(losses) and impairments on Group investments	–	4	–	–
Net investment result on Group investments	330	346	134	120
Net investment income on unit-linked investments	(29)	(30)	8	8
Net capital gains/(losses) and impairments on unit-linked investments	(18)	49	(24)	60
Net investment result on unit-linked investments	(47)	19	(16)	68
Other income	97	97	15	22
Total BOP revenues	960	1,019	778	807
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	339	318	447	442
Policyholder dividends and participation in profits, net	(24)	24	(13)	66
Income tax expense/(benefit) attributable to policyholders	–	–	–	–
Underwriting and policy acquisition costs, net	123	111	132	96
Administrative and other operating expense (excl. depreciation/amortization)	129	129	142	114
Interest credited to policyholders and other interest	137	168	5	5
Restructuring provisions and other items not included in BOP	1	(1)	3	–
Total BOP benefits, losses and expenses	704	750	717	724
Business operating profit (before interest, depreciation and amortization)	**256**	**269**	**61**	**84**
Depreciation and impairments of property and equipment	1	1	2	1
Amortization and impairments of intangible assets	26	25	2	2
Interest expense on debt	2	2	9	–
Business operating profit before non-controlling interests	227	241	49	81
Non-controlling interests	–	–	–	5
Business operating profit	**227**	**241**	**49**	**76**

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

	Europe		Asia-Pacific and Middle East		Other		Eliminations		Total
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
13,244	12,931	1,771	1,421	541	656	–	–	16,127	15,382
7,640	8,485	560	459	102	89	(30)	(53)	9,432	10,113
1,715	1,712	125	155	4	3	–	–	2,152	2,179
9,355	10,197	686	614	106	92	(30)	(53)	11,583	12,292
8,961	9,777	580	516	100	71	–	(6)	10,865	11,513
3,562	3,353	107	66	13	12	–	–	4,146	3,892
396	492	33	3	–	–	–	–	429	498
3,957	3,844	140	68	13	12	–	–	4,575	4,390
2,024	1,790	106	78	30	16	–	–	2,139	1,862
(4,595)	6,665	(946)	965	(104)	39	–	–	(5,687)	7,777
(2,572)	8,454	(840)	1,043	(74)	55	–	–	(3,548)	9,639
426	394	197	170	280	238	(4)	(4)	1,012	918
10,773	22,470	77	1,798	320	377	(4)	(10)	12,904	26,460
8,455	9,190	216	149	47	41	–	–	9,503	10,140
(1,920)	9,103	(801)	1,057	(69)	58	–	(6)	(2,826)	10,302
(255)	460	14	1	–	–	–	–	(242)	462
1,507	1,023	156	191	111	81	1	–	2,029	1,503
1,562	1,164	340	283	225	196	(5)	(4)	2,394	1,883
224	224	28	30	–	–	–	–	395	428
(127)	(177)	(7)	(1)	–	–	–	–	(130)	(179)
9,446	20,988	(53)	1,710	314	377	(4)	(10)	11,123	24,539
1,327	**1,482**	**131**	**87**	**6**	**–**	**–**	**–**	**1,781**	**1,922**
23	25	4	4	–	1	–	–	30	32
279	267	3	4	4	5	–	–	315	303
43	68	–	–	1	–	–	–	56	71
981	1,121	123	79	–	(6)	–	–	1,380	1,516
27	37	(1)	–	–	–	–	–	26	42
953	**1,085**	**124**	**79**	**–**	**(6)**	**–**	**–**	**1,353**	**1,474**

Consolidated financial statements *continued*

Table 29.8

Global Life – Revenues by region

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

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

Table 29.9

Global Life – Non-current assets by region

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

Consolidated financial statements *continued*

Farmers – Overview

Table 29.10

in USD millions, for the years ended December 31	Total 2011	2010
Farmers Management Services		
Management fees and other related revenues	2,767	2,778
Management and other related expenses	1,434	1,440
Gross management result	1,333	1,338
Other net income (excl. items not included in BOP)	36	27
Business operating profit before non-controlling interest	1,370	1,365
Business operating profit	1,370	1,365
Farmers Re		
Gross written premiums and policy fees	3,529	4,194
Net earned premiums and policy fees	2,984	5,574
Insurance benefits and losses, net	(2,105)	(3,708)
Total net technical expenses	(903)	(1,733)
Net underwriting result	(23)	134
Net non-technical result (excl. items not relevant for BOP)	58	84
Net investment result income	82	104
Business operating profit before non-controlling interests	116	321
Business operating profit	116	321
Farmers business operating profit	**1,486**	**1,686**

Ratios, as % of net earned premiums and policy fees		
Farmers Re Combined ratio	100.8%	97.6%

Supplementary information		
Property, equipment and intangible assets	2,454	2,468

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Consolidated financial statements *continued*

Other Operating Businesses – Overview

Table 29.11

in USD millions, for the years ended December 31	Holding & Financing[1]	
	2011	2010
Gross written premiums and policy fees	133	129
Net earned premiums and policy fees	74	76
Net investment income	489	500
Other income	94	80
Total BOP revenues	657	656
Insurance benefits and losses, incl. PH dividends, net	57	69
Underwriting and policy acquisition costs, net	15	5
Administrative and other operating expense (excl. depreciation/amortization)	170	184
Other expenses (excl. items not included in BOP)	(91)	17
Depreciation, amortization and impairments of property, equipment and intangible assets	3	–
Interest expense on debt	1,092	1,044
Business operating profit before non-controlling interests	(589)	(663)
Non-controlling interests	–	(1)
Business operating profit	**(589)**	**(663)**

[1] Includes the previously separately disclosed sub-segment "Alternative Investments".

	Headquarters		Eliminations		Total	
	2011	2010	**2011**	2010	**2011**	2010
	8	8	–	–	141	137
	8	8	–	–	83	84
	43	30	(8)	(5)	524	525
	960	835	(134)	(131)	920	784
	1,011	873	(141)	(136)	1,527	1,394
	1	3	–	–	58	72
	–	–	–	–	16	6
	1,156	927	(133)	(130)	1,193	980
	(5)	(3)	–	–	(96)	14
	104	84	–	–	107	84
	2	1	(9)	(5)	1,085	1,039
	(246)	(138)	–	–	(835)	(802)
	–	–	–	–	–	(1)
	(246)	**(138)**	**–**	**–**	**(835)**	**(801)**

Consolidated financial statements *continued*

Non-Core Businesses – Overview

Table 29.12

in USD millions, for the years ended December 31	Total	
	2011	2010
Gross written premiums and policy fees	594	531
Net earned premiums and policy fees	(108)	502
Insurance benefits and losses, net	475	769
Policyholder dividends and participation in profits, net	133	496
Total net technical expenses	76	57
Net underwriting result	(792)	(821)
Net investment income	47	208
Net capital gains/(losses) and impairments on investments	944	624
Net non-technical result (excl. items not included in BOP)	(206)	(168)
Business operating profit before non-controlling interests	**(7)**	**(157)**
Non-controlling interests	1	1
Business operating profit	**(8)**	**(157)**

30. Significant subsidiaries

Significant subsidiaries

as of December 31, 2011	Domicile	Segment[1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Australia						
ZCM Asia Holdings Pty Limited	Sydney	Other Operating Businesses	100	100	AUD	172.1
Zurich Australia Limited	Sydney	Global Life	100	100	AUD	0.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Zurich Financial Services Australia Limited	Sydney	General Insurance	100	100	AUD	22.8
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance/Global Life	99.98	99.98	EUR	12.0
Bermuda						
Centre Group Holdings Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
ZCM Holdings (Bermuda) Limited	Hamilton	Non-Core Businesses	100	100	USD	137.0
ZG Investments Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
Zurich International (Bermuda) Ltd.	Hamilton	Non-Core Businesses	100	100	USD	9.9
Brazil						
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	General Insurance	100	100	BRL	370.8
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.98	98.98	CLP	24,484.0
Cyprus						
Zurich Insurance Holding (Cyprus) Ltd.[2]	Nicosia	General Insurance	100	100	RUB	3.4
Germany						
Deutscher Herold Aktiengesellschaft[3]	Bonn	Global Life	79.83	79.83	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt/Main	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	100	100	EUR	68.5
Ireland						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Financial Services EUB Holdings Limited	Dublin	Non-Core Businesses	100	100	GBP	0.001
Zurich Global Funding Limited	Dublin	Other Operating Businesses	100	100	EUR	0.001
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	8.2
Italy						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	74.0
Zurich Life and Pensions S.p.A.	Milan	Global Life	100	100	EUR	40.5
Zurich Life Insurance Italia S.p.A.	Milan	Global Life	100	100	EUR	85.9

[1] The segments are defined in the notes to the Consolidated financial statements, note 29, Segment information.
[2] Zurich Insurance Holding (Cyprus) Limited holds indirectly 99.9% of Zurich Insurance Company Limited in Russia which is a wholly owned subsidiary of the Group.
[3] In addition buy out options exist which allow the minority shareholders to sell 15.17 percent of the shares of Deutscher Herold Aktiengesellschaft to the Group.

Consolidated financial statements *continued*

Significant subsidiaries (continued)

as of December 31, 2011	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Luxembourg						
Zurich Eurolife S.A.	Bertrange	Global Life	100	100	EUR	20.0
Zurich Finance (Luxembourg) S.A.	Luxembourg	Other Operating Businesses	100	100	EUR	0.1
Malaysia						
Malaysian Assurance Alliance Berhad	Kuala Lumpur	Global Life/ General Insurance	100	100	MYR	579.0
South Africa						
Zurich Insurance Company South Africa Limited[4]	Johannesburg	General Insurance	58.95	58.95	ZAR	3.0
Spain						
Bansabadell Pensiones, E.G.F.P, S.A.	Barcelona	Global Life	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Barcelona	General Insurance	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros y Reaseguros	Barcelona	Global Life	50	50	EUR	43.9
ZS Insurance America, S.L.[5]	Madrid	Global Life/ General Insurance	51	51	EUR	177.0
Zurich Latin America Holding S.L. – Sociedad Unipersonal[5]	Barcelona	Other Operating Businesses	100	100	EUR	43.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Global Life	100	100	EUR	56.4
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	17.0
Zurich Insurance Company Ltd[6]	Zurich	Other Operating Businesses	100	100	CHF	825.0
Zurich Life Insurance Company Ltd[7]	Zurich	Other Operating Businesses	100	100	CHF	60.0
"Zurich" Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	99.73	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	Istanbul	General Insurance	100	100	TRY	133.8
United Kingdom						
Allied Zurich Holdings Limited	Jersey, Channel Islands	Other Operating Businesses	100	100	GBP	90.7
Eagle Star Insurance Company Limited	Fareham, England	Non-Core Businesses	100	100	GBP	25.0
Sterling ISA Managers Limited	Swindon, England	Global Life	100	100	GBP	92.9
Zurich Assurance Ltd	Swindon, England	Global Life	100	100	GBP	236.1
Zurich Financial Services (UKISA) Limited	Swindon, England	Other Operating Businesses	100	100	GBP	1,492.1
Zurich Holdings (UK) Limited	Fareham, England	Other Operating Businesses	100	100	GBP	137.3
Zurich International Life Limited	Douglas, Isle of Man	Global Life	100	100	GBP	105.6
Zurich Specialties London Limited	Fareham, England	Non-Core Businesses	100	100	GBP	150.0

[4] Listed on the Johannesburg Stock Exchange. On December 31, 2011, the company had a market capitalization of ZAR 2.2 billion (ISIN Number 000094496).
[5] Represents the Group's newly acquired Santander insurance operations in Latin America (see note 5). The results of the operating activities will be included in the Global Life and General Insurance segments, whereas the headquarter's activities will be included in Other Operating Businesses.
[6] The results of the operating activities are included in the General Insurance segment, whereas the headquarter's activities are included in Other Operating Businesses.
[7] The results of the operating activities are included in the Global Life segment, whereas the headquarter's activities are included in Other Operating Businesses.

Significant subsidiaries (continued)

as of December 31, 2011	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
United States of America						
Farmers Group, Inc.	Reno, NV	Farmers	100	100	USD	0.001
Farmers New World Life Insurance Company	Mercer Island, WA	Global Life	100	100	USD	6.6
Farmers Reinsurance Company	Los Angeles, CA	Farmers	100	100	USD	58.8
Farmers Services LLC[8]	Wilmington, DE	Farmers	100	100	USD	–
Zurich American Corporation	Wilmington, DE	Non-Core Businesses	100	100	USD	0.00001
Zurich American Life Insurance Company	Schaumburg, IL	Global Life/ Non-Core Businesses	100	100	USD	2.5
ZFS Finance (USA) LLC V[8]	Wilmington, DE	Other Operating Businesses	100	100	USD	–
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD	5.0
Zurich Finance (USA), Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	0.000001
Zurich Holding Company of America, Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	20.2

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

Consolidated financial statements *continued*

31. Events after the balance sheet date

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

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Report of the statutory auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Financial Services Ltd

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Zurich Financial Services Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity, and notes (pages 104 to 144 and 153 to 278), for the year ended December 31, 2011.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

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

Zurich, February 15, 2012

Embedded value report

Zurich produces and reports Market Consistent Embedded Value to provide an economic view of the value of the life business to shareholders to support financial management and strategic decision making. This report provides an overview of the movement in the Market Consistent Embedded Value over the previous year and New Business Value added from new sales during the same period, including further splits into constituent parts and geographical regions.

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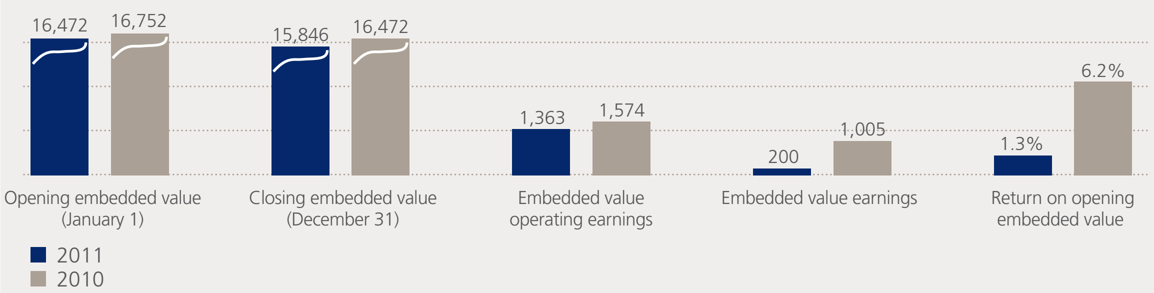
This report describes the development of the embedded value of the Zurich Financial Services Group (the Group) for the twelve months ended December 31, 2011.

The majority of this report, Sections 1 to 9, relates to Global Life, but summary information relating to the non-core life business is given in Section 10 and to the total Group in Section 11.

Embedded value report – executive summary

Key results
in USD millions, for the twelve months ended December 31



Embedded value key results

in USD millions, for the year ended December 31	2011[1,2]	2010	Change
Opening embedded value (January 1)	16,472	16,752[3]	(279)
Closing embedded value (December 31)	15,846	16,472[2]	(627)
Embedded value operating earnings	1,363	1,574[3]	(212)
of which new business value	*980*	*862*[2]	*118*
Embedded value earnings	200	1,005[3]	(805)
Return on opening embedded value	1.3%	6.2%[3]	4.9%

[1] A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011, see embedded value methodology section.
[2] In 2011, new business value and embedded value as of December 31 have been determined including a liquidity premium in the discount rate and, for greater consistency with other European Insurers, a cost of capital applied to residual non-hedgeable risks of 4 percent. The 2010 comparatives have been restated to reflect these changes.
[3] Figures have been determined without a liquidity premium in the discount rate and a cost of capital applied to residual non-hedgeable risks of 2.5 percent.

Global Life generated USD 1,363 million of embedded value operating earnings during 2011. This consisted of USD 980 million of new business value, and USD 383 million of other operating earnings. Changes in economic conditions reduced value by USD 1,322 million. Other non-operating variances increased embedded value by USD 160 million. The strengthening of the U.S. dollar decreased value by USD 194 million as a result of the effects of currency translation. In total the embedded value has decreased by USD 627 million, after allowing for the impact of non-controlling interests and dividends of USD 633 million.

New business value was USD 980 million, an increase of USD 118 million or 14 percent. Excluding the effect of the refinement in methodology described in section 12, new business value was flat in U.S. dollar terms and reduced by 5 percent in local currency. New business margin for the year remains at a strong level of 21.6 percent excluding the methodology change and 24.5 percent including the change. Margin was positively impacted by an increase in the proportion of protection business sold which was particularly evident in Spain, where higher levels of protection business meant new business value decreased only marginally compared with 2010 despite lower sales of savings products. The change in persistency assumptions noted previously in North America negatively impacted new business margin as did product mix in the UK which experienced higher growth in lower margin products. Lower interest rates in Europe also reduced margin on some product lines.

Embedded value operating earnings were USD 383 million excluding the impact of new business. Of this, USD 740 million was the expected emergence of value from in-force business, which was offset by adverse operating variances of USD 357 million, arising from experience and other operating variances as well as assumption changes.

Embedded value earnings were USD 200 million generating a return on embedded value of 1.3 percent. Embedded value earnings were negatively impacted by the challenging economic conditions.

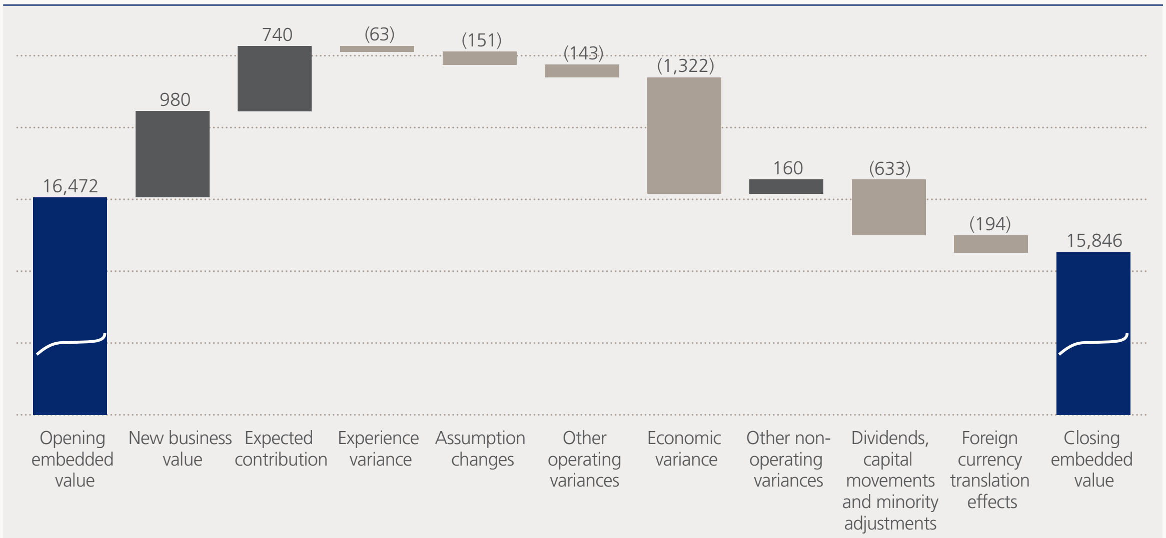
From the beginning of 2011 the Group refined its assumptions for greater consistency towards industry standards in respect of liquidity premium and the cost of capital rate applied to non-hedgeable risks. For further alignment to industry standards the liquidity premium was also applied to the time value of financial options and guarantees as at December 31, 2011. See embedded value methodology section for further details.

Embedded value report *continued*

1. Analysis of embedded value earnings

All 2010 figures in this section have been restated to include a liquidity premium in the discount rate and a cost of capital applied to residual non-hedgeable risks of 4 percent to be consistent with the 2011 figures, unless otherwise stated.

Embedded value development 2011
in USD millions, for the twelve months ended December 31



Analysis of embedded value earnings, 2011

in USD millions, for the year ended December 31, 2011	Required capital	Free surplus	Share-holders' net assets	Value of business in force	Total
Opening embedded value	**4,466**	**2,126**	**6,592**	**9,880**	**16,472**
Dividends & capital movements start of period	(143)	(357)	**(500)**	**(25)**	**(525)**
New business value Global Life	**(110)[1]**	**(654)**	**(764)**	**1,743**	**980**
New business net of non-controlling interests	*(138)[1]*	*(622)*	*(760)*	*1,686*	*926*
Expected contribution at reference rate	16	83	**100**	**105**	**205**
Expected contribution in excess of reference rate	28	(33)	**(5)**	**540**	**535**
Transfer to free surplus	332 [1]	771	**1,104**	**(1,104)**	**–**
Experience variance	65	(26)	**38**	**(102)**	**(63)**
Assumption changes	(100)	(12)	**(112)**	**(39)**	**(151)**
Other operating variances	(90)	(265)	**(355)**	**213**	**(143)**
Operating earnings	**141**	**(135)**	**6**	**1,357**	**1,363**
Economic variances	803	(411)	**392**	**(1,715)**	**(1,322)**
Other non-operating variances	28	41	**69**	**91**	**160**
Embedded value earnings	**972**	**(505)**	**467**	**(267)**	**200**
Non-controlling interests	(28)	32	**4**	**(58)**	**(54)**
Dividends & capital movements end of period	(9)	(18)	**(27)**	**(28)**	**(55)**
Foreign currency translation effects	(113)	(35)	**(148)**	**(45)**	**(194)**
Closing embedded value	**5,145**	**1,243**	**6,388**	**9,457**	**15,846**

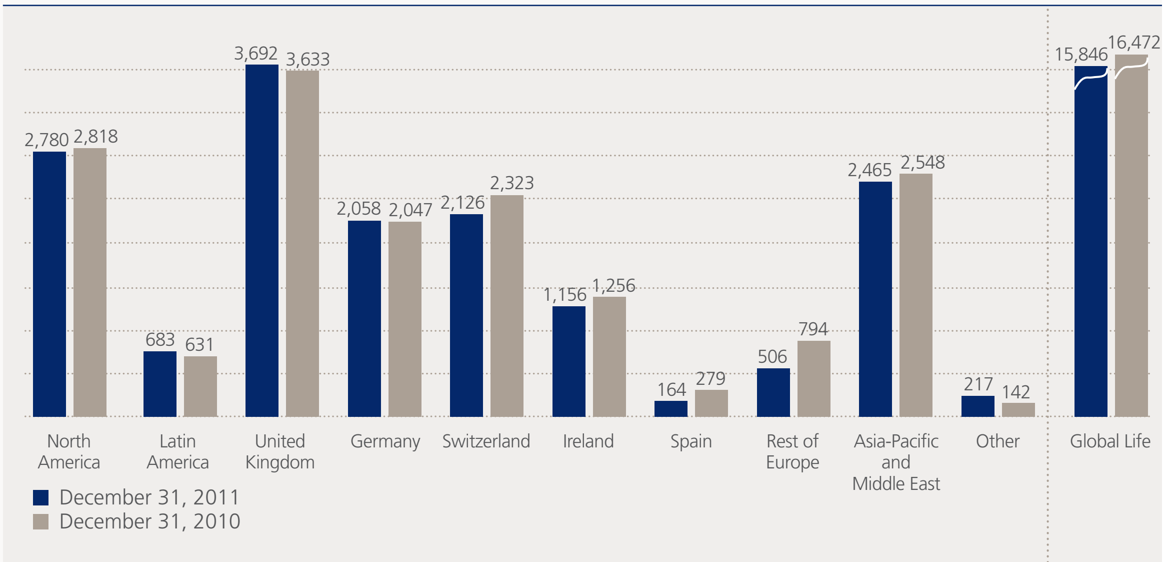
[1] As noted in section 12 c) the UK's required capital and free surplus allow for a Pillar 2 basis.

Analysis of embedded value earnings, 2010

in USD millions, for the year ended December 31, 2010	Required capital	Free surplus	Share-holders' net assets	Value of business in force	Total
Opening embedded value	**3,705**	**2,849**	**6,554**	**10,198**	**16,752**
Dividends & capital movements start of period	(18)	(284)	**(303)**	**(124)**	**(427)**
New business value Global Life	**(86)**	**(743)**	**(829)**	**1,646**	**817**
New business net of non-controlling interests	*(122)*	*(701)*	*(823)*	*1,586*	*763*
Expected contribution at reference rate	27	69	**96**	**120**	**216**
Expected contribution in excess of reference rate	17	25	**42**	**364**	**406**
Transfer to free surplus	289	853	**1,142**	**(1,142)**	**–**
Experience variance	(9)	19	**10**	**(92)**	**(82)**
Assumption changes	11	3	**14**	**148**	**162**
Other operating variances	232	(81)	**152**	**(97)**	**54**
Operating earnings	**481**	**146**	**627**	**947**	**1,574**
Economic variances	183	37	**220**	**(1,067)**	**(846)**
Other non-operating variances	159	407	**566**	**(289)**	**277**
Embedded value earnings	**824**	**590**	**1,414**	**(409)**	**1,005**
Non-controlling interests	(36)	42	**6**	**(60)**	**(54)**
Dividends & capital movements end of period	14	(966)	**(952)**	**–**	**(952)**
Foreign currency translation effects	(23)	(103)	**(126)**	**(56)**	**(182)**
Closing embedded value	**4,466**	**2,126**	**6,592**	**9,549**	**16,141**

– Values in the above table have not been restated and have been calculated without liquidity premium in the discount rate and using a cost of capital charge of 2.5 percent applied to CRNHR.

Embedded value by geographical region
in USD millions



Embedded value report *continued*

Embedded value by geographical region, 2011

in USD millions, as of December 31, 2011	Required capital	Free surplus	Required capital (% SM)[1]	Share-holders' net assets	CE[2]	FC[3]	TVFOG[4]	CRNHR[5]	Value of business in force	Total
North America	457	114	353.3%	**572**	2,736	(58)	(249)	(221)	**2,208**	**2,780**
Latin America	168	248	100.0%	**416**	311	(21)	(4)	(19)	**267**	**683**
Europe	3,796	565	118.9%	**4,361**	7,103	(481)	(877)	(404)	**5,340**	**9,701**
of which:										
United Kingdom	*1,254*	*(265)*	*131.4%*	*989*	*2,996*	*(61)*	*(123)*	*(109)*	*2,703*	*3,692*
Germany	*706*	*1,035*	*100.7%*	*1,742*	*1,148*	*(323)*	*(439)*	*(69)*	*316*	*2,058*
Switzerland	*655*	*15*	*100.0%*	*670*	*1,748*	*(38)*	*(122)*	*(132)*	*1,456*	*2,126*
Ireland	*362*	*68*	*149.1%*	*430*	*813*	*(14)*	*(24)*	*(49)*	*726*	*1,156*
Spain	*329*	*(148)*	*124.1%*	*181*	*51*	*(16)*	*(33)*	*(19)*	*(18)*	*164*
Rest of Europe	*489*	*(140)*	*131.0%*	*349*	*347*	*(28)*	*(135)*	*(27)*	*157*	*506*
Asia-Pacific and Middle East	695	259	121.4%	**953**	1,685	(76)	(19)	(79)	**1,512**	**2,465**
Other	29	58	101.7%	**87**	144	(5)	–	(9)	**130**	**217**
Global Life	**5,145**	**1,243**	**125.8%**	**6,388**	**11,978**	**(640)**	**(1,148)**	**(732)**	**9,457**	**15,846**

[1] SM is the local minimum solvency margin.
[2] CE is the certainty equivalent value of business in force.
[3] FC is the frictional cost.
[4] TVFOG is the time value of financial options and guarantees including the application of a liquidity premium.
[5] CRNHR is the cost of residual non-hedgeable risk (see section 12 for further details).

Embedded value by geographical region, 2010

in USD millions, as of December 31, 2010	Required capital	Free surplus	Required capital (% SM)[1]	Share-holders' net assets	CE[2]	FC[3]	TVFOG[4]	CRNHR[5]	Value of business in force	Total
North America	471	189	353.9%	**660**	2,619	(81)	(171)	(209)	**2,158**	**2,818**
Latin America	157	270	100.7%	**428**	268	(23)	(22)	(20)	**203**	**631**
Europe	3,206	1,294	115.3%	**4,500**	7,817	(382)	(1,127)	(474)	**5,833**	**10,334**
of which:										
United Kingdom	*973*	*470*	*133.0%*	*1,443*	*2,626*	*(44)*	*(279)*	*(113)*	*2,190*	*3,633*
Germany	*660*	*690*	*100.7%*	*1,350*	*1,562*	*(242)*	*(451)*	*(171)*	*697*	*2,047*
Switzerland	*526*	*20*	*100.0%*	*546*	*2,122*	*(37)*	*(221)*	*(86)*	*1,778*	*2,323*
Ireland	*332*	*154*	*149.0%*	*486*	*835*	*(15)*	*(9)*	*(40)*	*770*	*1,256*
Spain	*354*	*(183)*	*125.0%*	*171*	*203*	*(22)*	*(30)*	*(42)*	*109*	*279*
Rest of Europe	*361*	*144*	*100.0%*	*505*	*469*	*(21)*	*(136)*	*(22)*	*290*	*794*
Asia-Pacific and Middle East	602	296	121.5%	**899**	1,815	(69)	(19)	(78)	**1,649**	**2,548**
Other	29	77	101.7%	**105**	50	(5)	–	(8)	**36**	**142**
Global Life	**4,466**	**2,126**	**124.3%**	**6,592**	**12,568**	**(560)**	**(1,339)**	**(790)**	**9,880**	**16,472**

[1] SM is the local minimum solvency margin.
[2] CE is the certainty equivalent value of business in force.
[3] FC is the frictional cost.
[4] TVFOG is the time value of financial options and guarantees without the application of a liquidity premium.
[5] CRNHR is the cost of residual non-hedgeable risk (see section 12 for further details).

Movement in embedded value, after tax

in USD millions, for the year ended December 31, 2011	Opening embedded value	EV operating earnings	Economic and non-operating variances	EV earnings	Dividends, capital movements and non-controlling interests	Foreign currency translation effects	Closing embedded value
North America	**2,818**	**226**	(30)	**196**	(234)	–	**2,780**
Latin America	**631**	**108**	23	**131**	(13)	(66)	**683**
Europe	**10,334**	**953**	(1,116)	**(163)**	(343)	(126)	**9,701**
of which:							
United Kingdom	*3,633*	*282*	*83*	*365*	*(289)*	*(17)*	*3,692*
Germany	*2,047*	*466*	*(306)*	*160*	*(79)*	*(70)*	*2,058*
Switzerland	*2,323*	*96*	*(134)*	*(38)*	*(162)*	*3*	*2,126*
Ireland	*1,256*	*(49)*	*(43)*	*(93)*	*28*	*(35)*	*1,156*
Spain	*279*	*117*	*(161)*	*(45)*	*(70)*	*(1)*	*164*
Rest of Europe	*794*	*42*	*(555)*	*(513)*	*230*	*(6)*	*506*
Asia-Pacific and Middle East	**2,548**	**(25)**	(31)	**(56)**	(40)	12	**2,465**
Other	**142**	**100**	(8)	**92**	(3)	(14)	**217**
Global Life	**16,472**	**1,363**	(1,163)	**200**	(633)	(194)	**15,846**

EV operating earnings

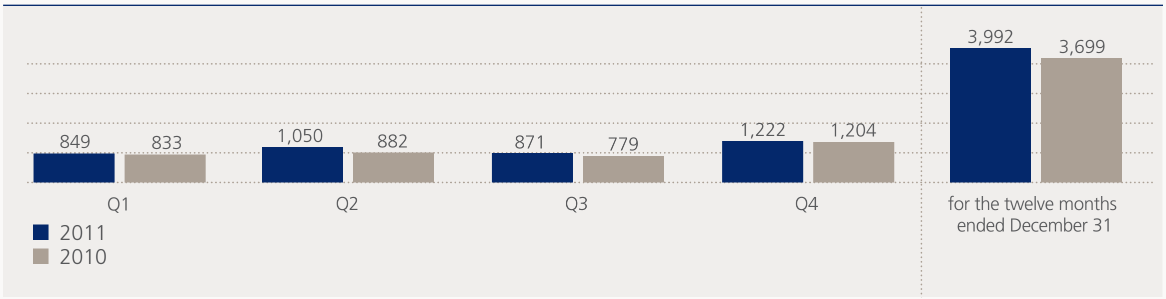
in USD millions, for the year ended December 31, 2011	Expected contribution	New business value	Operating experience variances	Operating assumption changes	Other experience variances	EV operating earnings
North America	125	60	(18)	86	(28)	**226**
Latin America	34	71	(21)	15	11	**108**
Europe	482	547	23	(32)	(67)	**953**
of which:						
United Kingdom	*116*	*154*	*87*	*(74)*	*(1)*	*282*
Germany	*103*	*171*	*(2)*	*43*	*151*	*466*
Switzerland	*143*	*9*	*(4)*	*19*	*(71)*	*96*
Ireland	*25*	*67*	*(58)*	*(7)*	*(77)*	*(49)*
Spain	*36*	*107*	*(1)*	*(31)*	*4*	*117*
Rest of Europe	*58*	*38*	*1*	*17*	*(73)*	*42*
Asia-Pacific and Middle East	98	136	(34)	(202)	(23)	**(25)**
Other	–	167	(14)	(18)	(35)	**100**
Global Life	**740**	**980**	**(63)**	**(151)**	**(143)**	**1,363**

Embedded value report *continued*

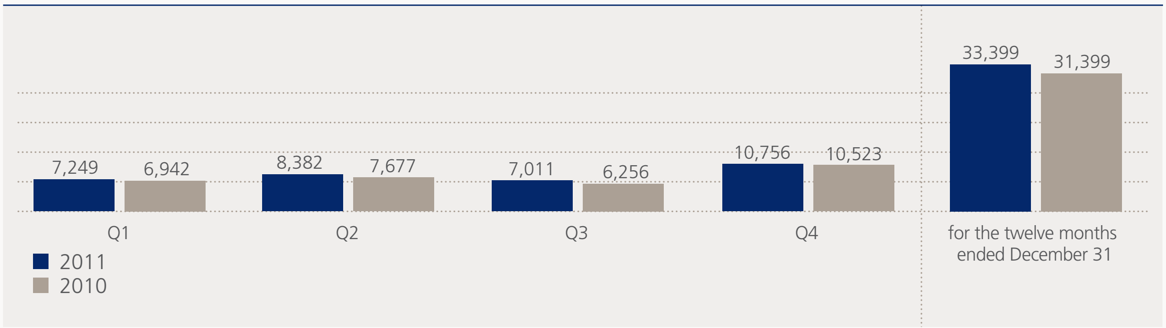
2. New business

All 2010 figures in this section have been restated to include a liquidity premium in the discount rate and a cost of capital applied to residual non-hedgeable risks of 4 percent to be consistent with the 2011 figures.

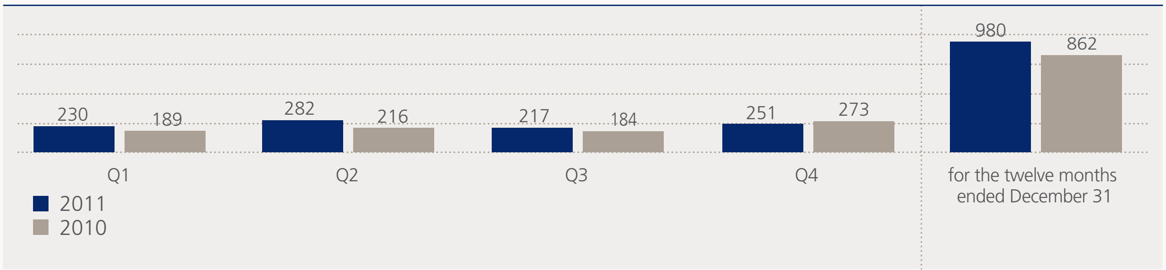
Annual premium equivalent (APE)
in USD millions



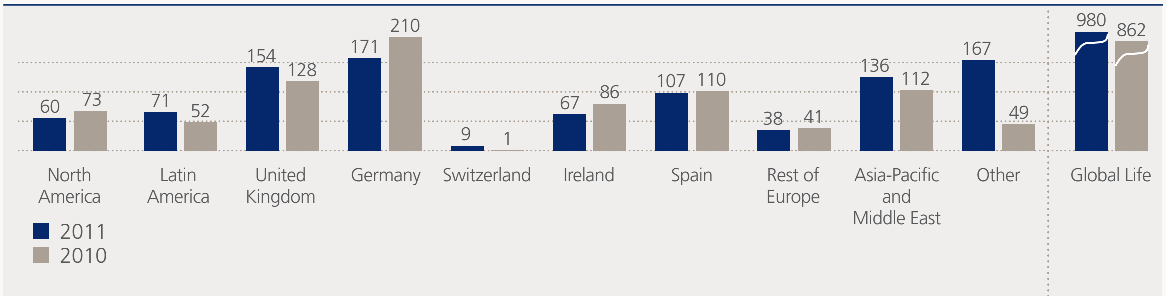
Present value of new business premiums (PVNBP)
in USD millions



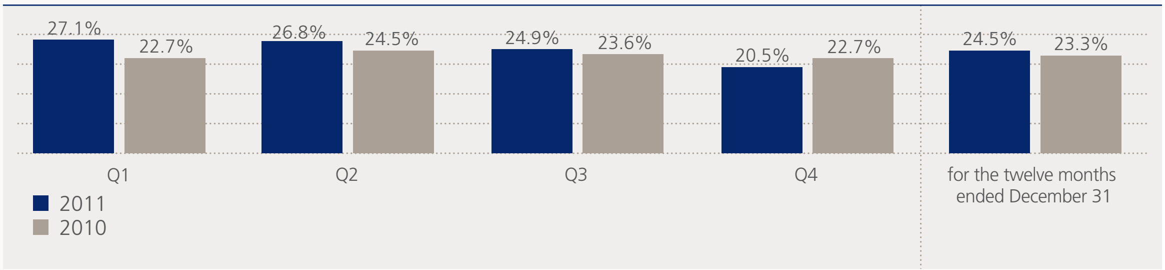
New business value
in USD millions



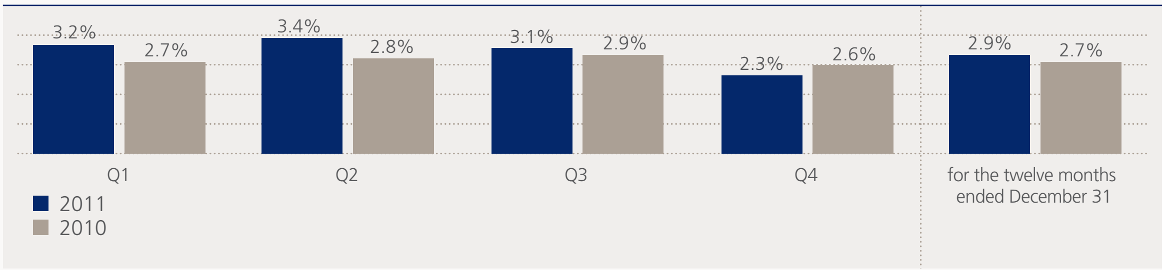
New business value by geographical region
in USD millions



New business margin (%APE)
in percent



New business margin (%PVNBP)
in percent



New business by quarter

in USD millions	2011					2010				
	Q1	Q2	Q3	Q4	Q4 YTD	Q1	Q2	Q3	Q4	Q4 YTD
Annual premium equivalent (APE)[1]	**849**	**1,050**	**871**	**1,222**	**3,992**	**833**	**882**	**779**	**1,204**	**3,699**
Annual premiums	499	645	531	704	2,379	419	460	442	651	1,973
Single premiums	3,496	4,051	3,402	5,175	16,125	4,139	4,221	3,371	5,529	17,261
Present value of new business premiums (PVNBP)[2]	7,249	8,382	7,011	10,756	33,399	6,942	7,677	6,256	10,523	31,399
Average annual premium multiplier	7.5	6.7	6.8	7.9	7.3	6.7	7.5	6.5	7.7	7.2
New business value	**230**	**282**	**217**	**251**	**980**	**189**	**216**	**184**	**273**	**862**
New business margin (% of APE)	**27.1%**	**26.8%**	**24.9%**	**20.5%**	**24.5%**	**22.7%**	**24.5%**	**23.6%**	**22.7%**	**23.3%**
New business margin (% of PVNBP)	**3.2%**	**3.4%**	**3.1%**	**2.3%**	**2.9%**	**2.7%**	**2.8%**	**2.9%**	**2.6%**	**2.7%**

[1] APE is new annual premiums plus 10 percent of new single premiums.
[2] PVNBP is new single premiums plus the present value of new annual premiums.

Embedded value report *continued*

New business by geographical region

in USD millions, for the year ended December 31	APE		PVNBP		New business value		New business margin % of APE		New business margin % of PVNBP	
	2011	2010	**2011**	2010	**2011**[2]	2010[1]	**2011**[2]	2010[1]	**2011**[2]	2010[1]
North America	111	98	1,024	941	60	73	54.3%	75.0%	5.9%	7.8%
Latin America	313	202	1,320	994	71	52	22.6%	25.7%	5.3%	5.2%
Europe	2,883	2,796	26,784	26,071	547	576	19.0%	20.6%	2.0%	2.2%
of which:										
United Kingdom	*1,235*	*961*	*11,830*	*8,730*	*154*	*128*	*12.5%*	*13.3%*	*1.3%*	*1.5%*
Germany	*588*	*653*	*5,530*	*6,909*	*171*	*210*	*29.1%*	*32.1%*	*3.1%*	*3.0%*
Switzerland	*151*	*89*	*1,593*	*823*	*9*	*1*	*6.0%*	*1.5%*	*0.6%*	*0.2%*
Ireland	*331*	*378*	*2,720*	*3,164*	*67*	*86*	*20.2%*	*22.7%*	*2.5%*	*2.7%*
Spain	*367*	*509*	*3,328*	*4,502*	*107*	*110*	*29.2%*	*21.5%*	*3.2%*	*2.4%*
Rest of Europe	*212*	*204*	*1,782*	*1,943*	*38*	*41*	*18.0%*	*20.3%*	*2.1%*	*2.1%*
Asia-Pacific and Middle East	524	463	2,943	2,588	136	112	25.9%	24.3%	4.6%	4.3%
Other	161	141	1,328	803	167	49	103.7%	34.5%	12.5%	6.0%
Global Life	**3,992**	**3,699**	**33,399**	**31,399**	**980**	**862**	**24.5%**	**23.3%**	**2.9%**	**2.7%**

[1] In 2011, new business value and embedded value as of December 31 have been determined including a liquidity premium in the discount rate and, for greater consistency with other European Insurers, a cost of capital applied to residual non-hedgeable risks of 4 percent. The 2010 comparatives have been restated to reflect these changes.
[2] The term over which group protection business is valued now includes the term over which the business is expected to be retained, see section 12 for further details.

New business value in **North America** declined despite increasing volumes as a result of changes in mortality and persistency assumptions. For protection business this was somewhat offset by lower interest rates.

Latin America recorded strong growth in new business value mainly supported by increased sales of profitable individual protection and unit-linked business, partially offset by non-renewal of a large government managed scheme in Chile.

Overall, in **Europe** sales were slightly down on a local currency basis compared with 2010 due to some of the challenging European markets. There were large offsetting effects with strong improvements to new business value in the UK and Switzerland.

The **UK** contributed a strong increase in sales, up 24 percent in APE on a local currency basis, with a small reduction in margin linked to a change in business mix. The main drivers were the Private Banking Client Solutions and corporate protection and savings business with some offset from lower sales through brokers and banks. Overall the new business value increased by 16 percent on a local currency basis compared with 2010.

In **Germany**, sales volume decreased on a local currency basis by 14 percent as measured by APE. In addition to the lower volume the deteriorating economic climate in the second half of 2011 reduced margins. Overall the new business value reduced by 22 percent on a local currency basis.

In **Switzerland**, APE increased by over 40 percent and new business value increased almost by a multiple of five compared with 2010 on a local currency basis. In the corporate protection and savings business the strong increase in APE was not fully translated into new business value as margins were reduced due to changes in business mix, while in Individual business both volume and business mix contributed to a strong increase in new business value.

In **Ireland**, the domestic business suffered from the challenging domestic market and the Group's unwillingness to compete with uneconomic pricing of domestic savings products. Furthermore cross-border sales reduced in both margin and value. New business value reduced by 26 percent on a local currency basis compared with 2010.

Sales in **Spain** remained at a low level. Lower sales of savings products were mainly offset by higher sales of profitable protection business. The resulting impact on new business value was a decrease of only 6.8 percent compared with 2010 on a local currency basis.

For **Asia-Pacific and Middle East**, sales improved significantly due to the strong development of corporate protection and savings business while margins increased slightly. New business value increased by 14 percent on a local currency basis compared with 2010.

In the **Other** region, the international corporate protection business performed well, with an increased volume of 18 percent as measured by APE, on a local currency basis. Excluding the impact of the methodology refinements, new business value was not materially different compared with 2010.

Embedded value report *continued*

3. Main acquisitions

In 2011 the Group acquired businesses in Malaysia and Latin America. The impact of these transactions is not included in the Global Life embedded value results as MCEV reporting, as of December 31, 2011, has not been fully implemented in the local business units.

The business acquired in Malaysia is included in the Group consolidated IFRS accounts as of December 31, 2011 and therefore the value of this business has been included in the non-covered business which is consolidated in the Group MCEV, see section 11 Group MCEV. The value included there is the unadjusted IFRS net asset value.

In Latin America the Group acquired a 51 percent stake in the insurance operations of Banco Santander S.A. (Santander) in Argentina, Brazil, Uruguay, Chile and Mexico. As part of the acquisition the Group also entered into a long term distribution agreement with Santander in Latin America. The value of this acquired business has also been included in the non-covered business in the Group MCEV. The value included there is the unadjusted IFRS net asset value.

When the MCEV reporting is implemented locally in the business units, the value of these units will be included in the covered business and thus the base MCEV value. In line with embedded value methodology, see section 12, the value of the acquisition will reduce the Group MCEV by the allocated intangibles.

4. Expected contribution and transfer to shareholder net assets

a) Expected contribution at reference rate

The expected contribution at reference rate is the projected change in the embedded value over the year using risk-free investment returns applicable at the start of the year. Expected contribution in relation to risk-free rates was lower in 2011 compared with 2010 due to the lower interest rate environment applying at the start of the year.

b) Expected contribution in excess of reference rate

The expected contribution in excess of reference rate is the additional value expected to be created if "real world" expected investment returns emerge. The expected return in excess of the risk-free rate on sovereign debt in some European countries has increased compared with 2010.

c) Transfer to free surplus

The expected transfer to shareholders' net assets shows the profits expected to emerge during the year in respect of business that was in force at the start of the year. The net affect on embedded value is zero, as the reduction in the value of business in force is offset by an increase in shareholders' net assets.

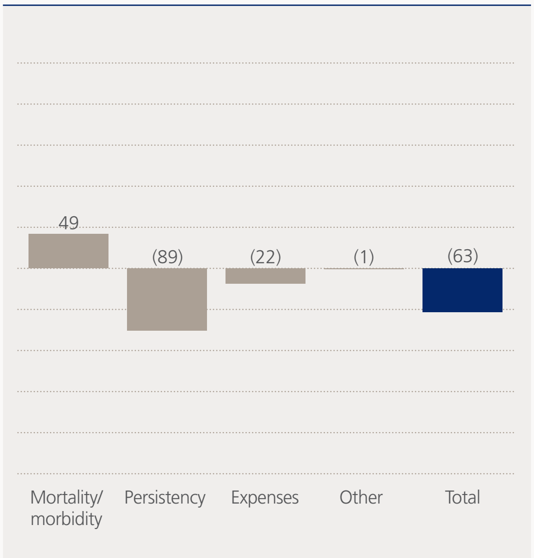
Embedded value report *continued*

5. Operating, economic and other non-operating variances

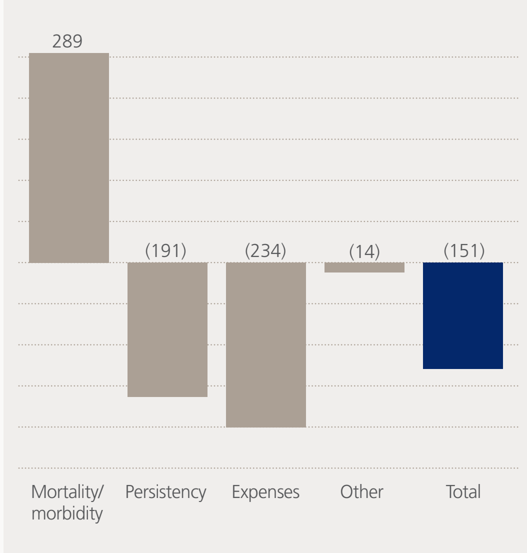
Operating variances and assumption changes

Operating variances measure the difference between actual experience during the year and that implied by the operating assumptions. Experience variations occur in the normal course of business as short-term experience fluctuates around the long-term assumptions. Operating variances also include the impact of changes in assumptions about future operating experience.

Embedded value Split of operating experience variance
in USD millions, for the twelve months ended December 31, 2011



Embedded value Split of operating assumption changes
in USD millions, for the twelve months ended December 31, 2011



Mortality and morbidity experience increased the embedded value by USD 49 million, positive experience in the UK was to some extent offset by adverse experience in North and Latin America. Following a mortality expense study into the corporate protection and savings business in Asia-Pacific and Middle East the mortality tables were updated resulting in a positive embedded value impact of USD 109 million. In North America the post level term mortality model was improved, in line with a new industry standard, which resulted in a positive impact of USD 136 million. Overall, updated mortality and morbidity assumptions increased embedded value by USD 289 million.

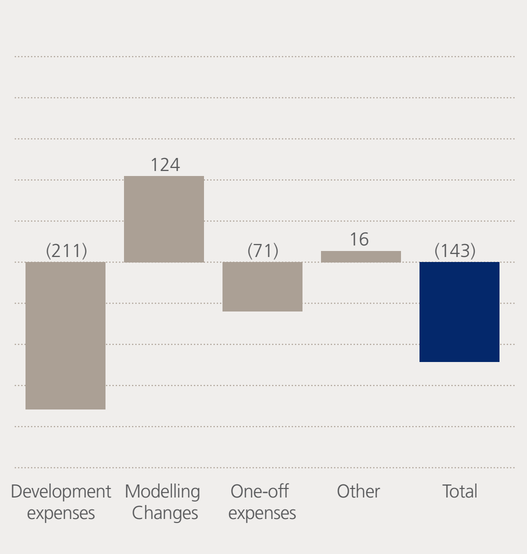
Persistency experience decreased embedded value by USD 89 million mainly due to higher than expected rates of termination. In Ireland, difficult market conditions in combination with the Irish government announcement of a pension fund levy resulted in an increase in lapses which reduced value by USD 52 million. Experience persistency in the Asia-Pacific and Middle East and the Other regions reduced value by USD 52 million. This impact resulted from one-off lapses of corporate schemes and elevated lapse rates in general. In total, updated persistency assumptions reduced embedded value by USD 191 million. The main positive contribution was from Germany where updated persistency assumptions increased value by USD 105 million. This was more than offset in Asia-Pacific and Middle East and North America where updated persistency assumptions reduced embedded value by USD 179 million and USD 91 million respectively.

Expense overruns reduced embedded value by USD 22 million. Main impacts were lower than expected expenses in UK of USD 49 million which was more than offset by overruns in other regions. The main overruns were due to infrastructure spend in Brazil and expense overruns in North America. Revised maintenance expense assumptions reduced embedded value by USD 234 million. This was mainly driven by a review of cost allocation in the savings and protection business of Asia-Pacific and Middle East. In the UK assumed future expenses increased.

Other operating experience variances were minor and other assumption changes reduced the embedded value by USD 14 million.

Other operating variances include modelling changes and non-recurring expenses and other operating variances not captured elsewhere.

Embedded value Split of other operating variances
in USD millions, for the twelve months ended December 31, 2011



Refinements to models were made in a number of countries resulting in an increase of USD 124 million in embedded value. In the UK the expense model was updated and a protection model was improved, increasing overall embedded value by USD 140 million. In North America a model improvement related to the Universal Life product reduced embedded value by USD 76 million. In Switzerland, an expense review reduced embedded value by USD 60 million. Germany implemented market dependent interest rates for annuitizations in the model, which increased embedded value by USD 105 million.

Development expenses of USD 211 million were incurred to fund the Global Life growth strategy, in particular to fund a new platform in the UK and hub development in Ireland. One-off expenses reduced value by USD 71 million and included costs of regulatory projects.

Other, other operating variances increased embedded value by USD 16 million.

In total Other operating variances reduced the embedded value by USD 143 million.

Embedded value report *continued*

Economic variances

Economic variances are the differences between the actual experience during the period and that implied by the economic assumptions at the start of the period and also include the impact of changes in assumptions in respect of future economic experience at the end of the period. In total economic variances decreased embedded value by USD 1.3 billion in 2011.

The main driver of the large negative impact of economic variances was movements in interest rates in Europe. In the second half of 2011 risk free rates reduced while the yields on sovereign debt increased significantly in several markets across Europe. As risk free rates decrease, the value of spread business and traditional participating business reduces. For those markets where yields on sovereign debt increased, the value of such investments dropped which also reduced the embedded value. Business in Spain, Italy and Portugal was subject to both of these effects reducing embedded value by USD 0.7 billion. In Germany business was affected by the reduced risk free rates limited to a degree by the hedging strategy there. The net economic variance in Germany reduced embedded value by USD 0.3 billion. In Europe unit-linked funds generated a lower than expected return, particularly in the UK and Ireland, reducing the embedded value by approximately USD 129 million.

Outside Europe falling equity markets reduced unit-linked fund values which resulted in a lower embedded value in Asia-Pacific and Middle East of USD 114 million. This impact was mainly offset by reduced interest rates on protection business, which increases value as future profits are discounted at lower rates. For this reason protection business in Australia and North America was positively affected by economic variance. These two effects mainly offset and the net impact of economic variances outside Europe reduced embedded value by an immaterial amount.

Other non-operating variances

Other non-operating variances included the impact of legal, tax and regulatory changes in the year as well as other significant one-off items.

Total other non-operating variances made a positive contribution of USD 160 million. The main positive effect was in the UK where changes to corporate tax rates were announced increasing embedded value.

6. Adjustments

a) Non-controlling interests
The adjustment to embedded value to remove non-controlling interests from new business value is included here, and largely arose from the interests of non-controlling shareholders in the Spanish and German operations.

b) Dividends and capital movements
Dividends and capital movements reflect dividends paid by Global Life to the Group and capital received from the Group. Capital movements can also relate to the value of business in force in respect of acquisitions and disposals, or corporate restructuring.

Dividend and capital movements that occurred in the first and second halves of the year are shown as "start of period" and "end of period" movements respectively.

Total capital movements for 2011 amounted to USD 579 million.

In **North America**, a dividend of USD 234 million was paid.

In **Latin America**, dividends of USD 12 million were paid.

In **Europe**, the UK paid a dividend of USD 289 million, Switzerland paid a dividend of USD 162 million and the Group injected USD 216 million into Italy and USD 28 million into each of Portugal and Ireland. In combination with other smaller capital movements this resulted in a net capital release of USD 291 million from Europe.

In the **Asia-Pacific and Middle East** region overall dividends of USD 40 million were paid.

In the **Other** region, a number of capital movements resulted in a net release of USD 3 million.

Changes in value for Global Life arising from dividend and capital movements are offset by equal and opposite value changes in the non-covered businesses of the Group and therefore have no impact on Group MCEV as shown in section 11.

c) Foreign currency translation effects
Foreign currency translation effects represent the impact of adjusting values to end-of-period exchange rates. The strengthening of the U.S. dollar against other currencies reduced the U.S. dollar embedded value by USD 194 million.

Embedded value report *continued*

7. Maturity profile of value in-force

The value in-force (VIF) maturity profile shows when the value in force profits are expected to emerge as free surplus, but do not include the release of required capital to free surplus which usually accompanies the emergence of the VIF profit. The VIF emergence is after frictional costs, cost of residual non-hedgeable risk and the time value of financial options and guarantees.

VIF maturity profile

in USD millions, for the year ended December 31, 2011	VIF	% of Total
1 to 5 years	3,049	32%
6 to 10 years	2,393	25%
11 to 15 years	1,765	19%
16 to 20 years	998	11%
more than 20 years	1,252	13%
Total	**9,457**	**100%**

The VIF maturity profile shows that 32 percent of the VIF should emerge as free surplus in the first 5 years and 57 percent within the first 10 years.

8. Reconciliation of IFRS shareholders' equity to embedded value

Reconciliation of Global Life IFRS shareholders' equity to embedded value

in USD billions, for the year ended December 31, 2011	Total 2011
IFRS shareholders' net assets[1]	**15.4**
Less non-controlling interests[2]	(1.0)
IFRS shareholders' equity net of joint ventures and non-controlling interests	**14.4**
Plus pension scheme liabilities[3]	0.6
Less intangible assets[4]	(6.7)
Deferred acquisition costs and deferred origination costs	*(13.8)*
Deferred front end fees	*5.7*
Present value of profits of acquired insurance contracts	*(0.7)*
Policyholder share of actuarial intangibles net of tax	*1.6*
Tax on shareholder share of actuarial intangibles	*2.2*
Goodwill	*(0.4)*
Other intangibles	*(1.3)*
Valuation differences[5]	(1.9)
Embedded value shareholders' net assets[6]	**6.4**
Value of business in force[7]	9.5
Embedded value	**15.8**

1 Global Life balance sheet value not including businesses in Malaysia and Latin America described in section 3.
2 Includes Spanish and other non-controlling interests.
3 Since pension scheme liabilities are included in IFRS equity but not EV shareholders' net assets.
4 Actuarial intangibles (after allowance for tax and policyholder sharing), goodwill and other intangibles.
5 Unrealized gains/losses on investments, statutory vs IFRS reserving requirements.
6 EV shareholders' net assets net of non-controlling interests.
7 EV value of business in force.

Embedded value report *continued*

9. Sensitivities

Sensitivities

in USD millions, as of December 31, 2011	Change in embedded value	Change in new business value
Actual embedded value	**15,846**	**980**
Operating sensitivities		
10% increase in initial expenses	n/a	(6%)
10% decrease in maintenance expenses	4%	8%
10% increase in voluntary discontinuance rates	(4%)	(13%)
10% decrease in voluntary discontinuance rates	6%	17%
5% improvement in mortality and morbidity for assurances	2%	8%
5% improvement in mortality for annuities	(2%)	(1%)
Required capital set equal to minimum solvency capital	–	–
Economic sensitivities		
100 basis points increase in risk free yield curve	4%	20%
100 basis points decrease in risk free yield curve	(10%)	(39%)
10% fall in equity market values	(2%)	–
10% fall in property market values	(2%)	1%
25% increase in implied volatilities for risk free yields	(2%)	(3%)
25% decrease in implied volatilities for risk free yields	2%	3%
25% increase in implied volatilities for equities and properties	(1%)	–
25% decrease in implied volatilities for equities and properties	1%	1%

- Base for sensitivities is without liquidity premium and using a cost of capital charge of 4 percent applied to CRNHR
- Changes in embedded value and new business value are calculated on the basis of no liquidity premium and end of period assumptions, reducing embedded value by USD 1,796 million and new business value by USD 238 million.

The key assumption changes represented by each of these sensitivities are given in section 12(r).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include the impact of assumption changes on the time value of financial options and guarantees. The 100 basis points decrease in risk free yield curve increases the value of some products, such as term assurance, with fixed future cash flows discounted at lower rates. This increase is offset by the reduction in the value of other products, such as those with profit sharing, due to the lower assumed investment returns on investment of net cash flows.

In addition to the above sensitivity the impact of a new methodology has been calculated to derive liquidity premium for euro currency liabilities. The difference to the current method is mainly a change to the credit spread data used in the calculations. For euros, the original credit spread data provider changed their method from January 1, 2012. The new method removes distortions arising, in particular, from the recent increases in the French sovereign spread. Under the current method the liquidity premium is 61 basis points and under the new method the liquidity premium has been estimated to be 108 basis points. If the new method is applied to the closing embedded value as at December 31, 2011 the impact has been estimated to be an increase of approximately 5 percent. For prior years and earlier quarters in 2011 the impact would be much less material.

10. Non-core life business

The Group has written life business in Zurich American Life Insurance Company and in its Centre operations, which are not managed by Global Life and are included in Non-core life businesses. The main products that have been written by these businesses outside Global Life were:

- variable annuity contracts that provide annuitants with guarantees related to minimum death and income benefits;
- disability business; and
- bank owned life insurance business.

The Group has estimated the embedded value of these businesses based on the same principles as for the Global Life business, including deductions for the time value of financial options and guarantees, frictional costs and the cost of residual non-hedgeable risk, but using more approximate models.

Estimated embedded value of life businesses in Non-Core Businesses

in USD billions, as of December 31	**2011**	2010
Shareholders' net assets	0.5	1.0
Value of business in force	0.2	(0.1)
Embedded value	**0.7**	**0.9**

Embedded value report *continued*

11. Group MCEV

The Group MCEV is presented in the following table as the Global Life covered business which is valued under the MCEV principles and the non-covered businesses which are valued at the unadjusted IFRS net asset value. Non-covered businesses include the unadjusted IFRS net asset value of acquired businesses in Malaysia and Latin America, the non-core life businesses managed outside Global Life and all other Group businesses including general insurance and Farmers.

Group MCEV

in USD billions, as of December 31, 2011	Covered Business MCEV	Non-covered business	Total Group MCEV
Opening Group MCEV	**16.5**	**18.2**	**34.6**
Operating MCEV earnings[1]	1.4	2.4	3.7
Non-operating MCEV earnings	(1.2)	0.0	(1.2)
Total MCEV Earnings	0.2	2.4	2.6
Other movements in IFRS net equity[2]	0.0	(0.4)	(0.4)
Closing adjustments[3]	(0.8)	(2.9)	(3.7)
Closing Group MCEV	**15.8**	**17.2**	**33.1**

[1] For non-covered business this is set equal to the change in Net Income After Tax (NIAT) over the period.
[2] For non-covered business this is set equal to the change in Other Comprehensive Income (OCI) excluding the foreign currency translation adjustment over the period.
[3] Closing adjustments refer to dividend and capital movements, non-controlling interests and foreign currency translation effects.

12. Embedded value methodology

The Group has applied the Market Consistent Embedded Value (MCEV) Principles issued by the European Insurance CFO Forum in October 2009, for its Embedded Value (EV) Report for the companies and businesses in its Global Life segment (the covered business). This report primarily relates to Global Life excluding the recently acquired businesses in Malaysia and Latin America, but information relating to the life business included in Non-core life businesses is given in section 10 and to the total Group in section 11. The embedded value methodology adopted by the Group is based on a "bottom-up" market consistent approach to allow explicitly for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets and options and guarantees are valued using market consistent models calibrated to observable market prices. Where markets exhibit a limited capacity, the valuation is based on historical averages.

Embedded value represents the shareholders' interests in the entities included in Global Life as set out in the Group's Consolidated IFRS financial statements. Embedded value excludes any value from future new business.

Recent refinements to methodology include:

- As of December 31, 2011 the liquidity premium is also applied to the calculation of the time value of financial options and guarantees. The impact has been estimated to be an increase of embedded value as of December 31, 2011 by USD 0.3 billion.

- For 2011, the Group has applied a liquidity premium to the key major operating currencies in its embedded value assumptions and, for greater consistency with other European insurers, the cost of capital applied to residual non-hedgeable risks was set at 4 percent. Embedded values and new business values for 2010 disclosed in this report have been restated to include these changes, unless otherwise stated. The impact on opening embedded value for 2011 was an increase of USD 331 million and the impact on 2010 new business value was an increase of USD 45 million.

- A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011. This contributed USD 119 million to new business value, of which USD 116 million relates to international group protection business included in Other businesses, and 3.0 percent to new business margin, in 2011. The refinement results from the inclusion of the value expected to be generated over the entire life of the contract in corporate protection business rather than the value expected to be generated up to the next renewal date in those contracts. See section 13 b) for further details.

a) Covered business

Covered business includes all business written by companies that are included in the Global Life segment (excluding the recently acquired businesses in Malaysia and Latin America), unless otherwise stated. In particular:

- life and critical illness insurance;

- savings business (with profit, non-profit and unit-linked);

- pensions and annuity business; and

- long-term health and accident insurance.

For certain smaller companies in Global Life, no embedded value has been calculated but these companies have been included in the embedded value at their shareholders' net asset value, as calculated in accordance with the Group's IFRS accounting policies. The contribution from these companies to the embedded value is approximately 1 percent.

b) Reporting of embedded value

In line with the MCEV Principles, the embedded value is split between shareholders' net assets, including free surplus and required capital; and, the value of business in-force.

The results are disclosed in a format that the Group considers to be appropriate for the market consistent methodology adopted.

Embedded value report *continued*

c) Shareholders' net assets

Shareholders' net assets represent the market value of net assets held in respect of the covered business, and consists of the required capital and free surplus. The level of required capital reflects the amount of capital considered by the local Directors to be appropriate to manage the business. This would be set at least at the level equal to the regulatory required capital, at which the regulator would intervene to request a capital injection and in addition, for the main companies, an adequate buffer to cover short term volatilities in solvency due to financial and non-financial risks or to achieve the capital required to maintain the desired credit rating.

The free surplus comprises the market value of shareholders' net assets allocated to the covered business in excess of the assets backing the required capital.

In the UK, a dual capital regime exists with the second pillar currently more stringent than the first pillar. The first pillar is a solvency one basis. Under the second pillar basis the value of in-force is counted as an admissable asset with a subsequent risk charge. Under this basis, when the Group writes new business with an in-force value greater than the risk charge, the level of required capital decreases. Similarly, when in-force value emerges into shareholders' net assets, a portion of this release needs to be allocated to required capital to offset the now reduced value of the in-force asset. This required capital impact is a feature of an economic capital mechanism which differs markedly from the current solvency one basis.

Shareholders' net assets are based on local statutory and regulatory accounting. Adjustments are made to the embedded value where appropriate, for example in respect of any unrealized gains attributable to shareholders. Any such adjustments are made consistently with the calculation of the value of business in-force.

d) Value of business in-force

The value of business in-force is the present value of future projected profits, distributable after tax to shareholders from the covered business. It is defined as the certainty equivalent value of business in-force less frictional costs, the time value of financial options and guarantees, and the cost of residual non-hedgeable risk. These components are explained below.

Certainty equivalent (CE) value is the value calculated using discount rates consistent with those applied to the underlying cash flows in the capital markets. It includes the intrinsic value but excludes the time value of financial options and guarantees which is allowed for separately, as described below.

Frictional costs (FC) reflect a deduction for the cost of holding shareholder capital. Under the Group's market consistent framework, these frictional costs represent tax in respect of future investment income on total required capital plus investment management costs. In Germany, the policyholders' share of investment income on the capital is also included.

For the purpose of these calculations, required capital is assumed to run off in line with existing business.

The allowance for frictional costs is included both in the value of business in-force and in the new business value. For new business, frictional costs are applied to the minimum solvency capital required to be held in respect of that business.

No allowance is made for "agency costs" as these are considered to be subjective and depend on the view of each shareholder.

Time value of financial options and guarantees (TVFOG) represents additional costs in excess of the intrinsic value of options and guarantees which are already allowed for in the certainty equivalent value. These are based on the variability of investment returns which need to be allowed for explicitly under the MCEV Principles. The time value is calculated on a market consistent basis using stochastic modeling techniques, and making allowance for expected management and policyholder behavior.

For products with significant guarantees, the time value has been calculated on a market consistent basis by deducting the average present value of shareholder cash flows using at least 1,000 stochastic economic simulations from the certainty equivalent value (both for the value of business in-force and separately for new business value).

For most products, the average value has been calculated using Monte Carlo simulations. For a small number of products, the TVFOG has been derived using closed form solutions.

Where appropriate, the calculation of the time value of financial options and guarantees makes allowance for:

- dynamic actions that would be taken by management under different economic simulations, for example to implement a life business' investment strategy; and

- dynamic policyholder behavior, for example changes in surrender behavior as interest rates rise or fall, or take-up rates of guaranteed annuity options.

The **cost of residual non-hedgeable risk (CRNHR)** is an explicit deduction for non-hedgeable financial risks (non-hedgeable asset/liability management risks and reinsurance credit risk), and non-financial risks (mortality, persistency, expenses and operational risk). The certainty equivalent value allows for best estimate shareholder cashflows. The CRNHR is largely an allowance for uncertainty in shareholder cashflows, and for risks which are not already considered in the certainty equivalent value or time value of financial options and guarantees, such as operational risk. Most residual non-hedgeable risks have a symmetric impact on embedded value apart from operational risk.

CRNHR is calculated as a charge on the capital held for residual non-hedgeable risks. This is calculated according to Zurich's internal risk based capital model by applying 1 in 2000 shocks to the embedded value assumptions. To align with the MCEV Principles the risk based capital is scaled to 99.5 percent confidence level by using empirical distributions where available, or by assuming probability distributions as appropriate.

The capital is projected over the lifetime of the business using appropriate risk drivers for each risk type. The present value of the risk capital is calculated by applying the swap curve as at the valuation date. The CRNHR allows for diversification across risk types and across geographical segments. This approach complies with all areas of the MCEV Principles except Guidance 9.7, because it allows for diversification between covered and non-covered business, which is consistent with the management view of the business and adds an estimated USD 434 million to embedded value.

A 4 percent cost of capital charge has been applied to the diversified present value of non-hedgeable risk based capital.

e) New business

New business covers new contracts sold during the reporting period and includes recurring single premiums, new premiums written during the period on existing contracts and variations to premiums on existing contracts where these premiums and variations have not previously been assumed to be part of business in-force. Where recurring single premiums are projected over time to derive the corresponding new business value, they are treated as annual premium for the volume definition. Group Life business which is valued with a renewal assumption of the contracts is treated as annual premium.

The new business is valued at the point of sale. Explicit allowance is made for frictional costs, time value of financial options and guarantees, and CRNHR. New business value is valued using actual new business volumes, except in Germany. See section 12 f) for details.

The value generated by new business written during the period is the present value of the projected stream of after tax distributable profits from that business.

In certain profit sharing funds, the new business written can affect the TVFOG for business written in prior years. This effect is taken into account in the new business value by valuing on a marginal approach, the difference between embedded value with and without new business. This captures the effect of cross-subsidies between in-force and new business due to, for example, different interest rate guarantees operating in a shared common pool of assets.

Quarterly new business is valued on a discrete basis. New business value is calculated separately for each quarter using assumptions, both operating and economic, as of the start of the relevant quarter. New business strain is also calculated on a quarterly discrete basis, meaning that it takes account only of cash flows during that quarter and makes no allowance for any subsequent reduction in strain during the remainder of the year. Once calculated, the new business value will not change in local currency terms.

Embedded value report *continued*

f) Asset and liability data

The majority of the Group's embedded value has been calculated using a "hard close" approach. This means that all asset and liability data reflect the actual position as of the valuation date.

Germany has followed an approach where liability model points were set up in advance, using the structure of a previous run, and then projected to valuation date values by scaling to match the expected balance sheet figures. The new business model points are set up quarterly. For each quarter new business model points are scaled to the expected APE quarter discrete.

g) Market consistent discounting

The Group has adopted a "bottom-up" market consistent approach for the projection and discounting of future cash flows in the calculation of the embedded value. As a result, the risks inherent in the cash flows are allowed for in a way that is consistent with the way the market is expected to allow for such risks.

In principle, this method values each cash flow using a discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a debt security cash flow is valued using a debt security discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate.

In practice, the Group has applied a computational method known as a "risk neutral" approach. This involves projecting the assets and liabilities using a distribution of asset returns where all asset types, on average, earn the same risk free rate.

The risk free yield curve assumptions are based on the swap curve in each major currency (U.S. dollars, euros, British pounds and Swiss francs). For liabilities where payouts are either independent or move linearly with markets, deterministic techniques (referred to as "certainty equivalent") have been used. In such cases, the projection and discounting are based on the same risk free yield curve.

h) Economic scenario generator

All operations use actual yield curves observable as at the valuation date for the calculation of the certainty equivalent value of business in-force.

The calculations of the TVFOG is based on stochastic simulations using an economic scenario generator provided by Barrie & Hibbert. The outputs ("simulations") have been calibrated to conform to the economic parameters specified by the Group.

The simulations used for calculation of TVFOG reflect the actual yield curves and implied volatilities observable as at the valuation date.

Simulations are produced for the economies in the U.S., the UK, Switzerland and the eurozone. In each economic area, risk free nominal interest rates are modeled using a LIBOR market model. The excess return on other asset classes relative to the total returns on risk free assets are then modeled using a multi-factor lognormal model. Hong Kong uses U.S. dollar simulations as their principal liabilities are U.S. dollar-denominated. Chile uses closed form solutions rather than simulations. The other operations not mentioned above have no significant options and guarantees. Further details are set out under "Economic assumptions" in section 13.

i) Corporate Center costs

Corporate Center costs that relate to covered business have been allocated to the relevant countries and included in the projected expenses.

j) Holding companies

Holding companies that are allocated to Global Life have been consolidated in the embedded value at their local statutory net asset value. Related expenses are small and so have been excluded from the projection assumptions. Holding companies outside Global Life are not included in the embedded value of the covered business.

k) Consolidation adjustments

Where a reassurance arrangement exists between two life companies within Global Life, the value of the reassurance is shown in the embedded value of the ceding company.

Embedded value is shown net of non-controlling interests. Where the Group has a controlling interest in a subsidiary company, the new business value and the premium information are shown gross of non-controlling interests. The non-controlled share of new business value is eliminated through "Non-controlling interests".

l) Debt

Where a loan exists between a company in Global Life and a Group company outside Global Life, the loan is valued for embedded value purposes at the same value as that included outside Global Life under IFRS.

m) "Look through" principle – service companies

There are some companies within Global Life that provide administration and distribution services. These are valued on a "look through" basis. The results do not include any Group service companies outside Global Life.

In the UK, a multi-tie distribution company (Openwork) is included in the embedded value on a "look through" basis. After allowance for certain one-off expenses, profits and losses are attributed to new business value. Certain future revenue streams, mainly renewal commissions on business sold, are discounted and contribute to the new business value and to the value of business in-force.

In Germany, the majority of distribution and administration is provided by service companies. These are valued on a "look through" basis. These companies also provide limited services to companies outside Global Life. The value of business in-force and new business value reflect the services provided to companies within Global Life. Net asset value consists, however, of the full statutory equity of these service companies.

In Switzerland, an investment management company provides asset management services to pension schemes written in foundations and other pension funds. The present value of the net asset management fees, after tax, is included in the embedded value and the new business value.

n) Employee pension schemes

Actuarial gains and losses arising from defined benefit pension and other defined benefit post-retirement plans are recognized in full in the period in which they occur and are presented on a separate line in the statement of comprehensive income in the Group's consolidated financial statements, with a liability recognized for employee benefit deficits under IAS 19. This adjustment has not been made in the detailed embedded value described in this embedded value report. If the adjustment had been made the embedded value at the valuation date would have been lower by USD 624 million. The actuarial and economic assumptions used for this adjustment are consistent with those used for the equivalent allowance made in the Group's Consolidated financial statements.

As previously reported, expense assumptions for each life business include expected pension scheme costs in respect of future service entitlements.

o) Employee share options

The costs of share options granted to employees are not included in the embedded value, other than to the extent that they are allowed for in the local statutory accounts upon which the shareholders' net assets are based. Further information on the costs of share options is given in the Group's consolidated financial statements.

p) Change in legislation or solvency regime

The impacts of changes in legislation or solvency regimes are included in economic variance for the analysis of movement.

q) Translation to Group presentation currency

To align embedded value reporting with the Group's consolidated IFRS financial statements, relevant results have been translated to the Group presentation currency, U.S. dollar, using average exchange rates for the period. This applies to new business value, new business volumes (APE and PVNBP) for the current period and comparative figures. This approach has also been applied to the analysis of movement. Valuations as at a specified date are translated at end-of-period exchange rates.

The rates can be found in note 1 of the Consolidated financial statements.

Embedded value report *continued*

r) Sensitivities

The key assumption changes represented by each of the sensitivities in Section 9 are as follows:

Operating sensitivities

A 10 percent increase in initial expenses was considered for new business values only.

A 10 percent decrease in maintenance expenses means that, for example, a base assumption of USD 30 per annum would decrease to USD 27 per annum.

A 10 percent decrease in voluntary discontinuance rates means that, for example, a base assumption of 5 percent per annum would decrease to 4.5 percent per annum.

A 5 percent improvement in mortality and morbidity assumptions for assurances means that, for example, if the base mortality assumption for assurances was 90 percent of a particular table, this would decrease to 85.5 percent.

A 5 percent improvement in mortality assumptions for annuities means that, for example, if the base mortality assumption for annuities was 90 percent of a particular table, this would decrease to 85.5 percent.

Required Capital set to Minimum Solvency Capital means that frictional costs are applied to minimum solvency capital only and frictional costs on excess solvency capital are released.

Economic sensitivities

A 100 basis points increase and decrease (subject to a minimum of zero percent) was applied to the risk free yield curve across all durations.

A 10 percent fall in equity and property market values was assessed for embedded value only.

A 25 percent increase in implied risk free volatilities means that, for example, a volatility of 20 percent per annum would increase to 25 percent per annum.

A 25 percent increase in implied equity and property volatilities means that, for example, a volatility of 20 percent per annum would increase to 25 percent per annum.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include any impact of the assumption changes on the time value of financial options and guarantees.

13. Embedded value assumptions

Projections of future shareholder cash flows expected to emerge from covered business and for new business are determined using best estimate operating assumptions. These assumptions, including mortality, morbidity, persistency and expenses, reflect recent experience and are actively reviewed. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favorable changes in operating efficiency are not anticipated in the assumptions – in particular for expenses and persistency.

Future economic assumptions, for example, investment returns and inflation, are based on period end conditions and assumed risk discount rates are consistent with these. For new business, the future economic (and operating) assumptions are based on conditions at the start of the relevant quarter.

Details of the economic assumptions for the major economies in which Zurich Global Life carries out business can be downloaded in a spreadsheet from the Investors section of www.zurich.com.

a) Economic assumptions

Market consistent framework

The Group has adopted a computational method known as "risk neutral." With this method the key economic assumptions are:

- risk free rates;
- implied volatilities of different assets; and,
- correlations between different asset returns.

Expected asset returns in excess of the risk free rate have no bearing on the calculated embedded value other than in the expected return used for the analysis of embedded value earnings. The expected return for equities comprises an equity risk premium added to the start of period one year swap rate. The expected return on corporate bonds is equal to the start of period one year swap rate plus a risk premium estimated by comparing the market yield on corporate bonds with the swap rates for equivalent durations. In addition, a reduction must be made to the yield to allow for the expected level of defaults.

Choice of "risk free yield curve"

The risk free yield curve is derived from mid-market swap rates applicable to each economy at the valuation date. These curves were used to extract forward reinvestment yields that are used for all asset classes. The yield curves are consistent with the assumptions used by investment banks to derive their option prices and their use ensures consistency with the derivation of implied volatilities. They also have the advantage of being available for most of the markets in which the Group operates. Domestic yield curves are used by businesses in other countries, except Hong Kong and Argentina which use the U.S. dollar, as their liabilities are principally U.S. dollar-dominated.

Implied asset volatility and correlations

The Group's embedded value model is based on market consistent assumptions. Interest volatility is derived from the implied volatility of interest rate swaptions. Swaption implied volatilities vary both by the term of the option and also the term of the underlying swap contract, a fact that is reflected in the economic scenarios. The equity volatilities are based on at-the-money forward European options on capital indices, consistent with traded options in the market. Volatility of property investments is derived from relevant historical return data for each modeled economy. Assumptions for long-term equity volatility and long-term correlations between equity, property and bond indices are prepared with reference to historical analysis.

Inflation

Inflation assumptions have been derived from the yields on index linked government bonds relative to the corresponding nominal government yield curve, where such index linked government bonds exist. Where appropriate, allowance has been made for expense inflation to exceed the assumed level of price inflation reflecting the contribution of salary related expenses to life company expenses. In Switzerland, no index linked government bonds exist, so reference has been made to the Swiss National Bank's published target of price stability.

Risk discount rate

Under the "risk neutral" approach, risk discount rates are based on the same risk free yield curves as those used to project the investment return.

Embedded value report *continued*

For stochastic modeling, the risk discount rates are simulation specific and also vary by calendar year consistently with the projected risk free yields in each simulation.

Liquidity premiums

The CFO Forum engaged Barrie & Hibbert who estimated a liquidity premium proxy to be equal to 50 percent times the (credit spread over swaps less 40 basis points) where credit spreads over swaps is equal to credit spread on a representative corporate bond index less the swap rate for each particular currency.

The Group applies liquidity premium in the operating currencies of U.S. dollar, Euro, British pound and Swiss franc in its embedded value.

The liquidity premium is applied to the following lines of business:

- 100 percent for annuities;
- 75 percent for contracts with participating features, universal life contracts and fixed interest annuities in the U.S.;
- 0 percent for all other lines of business.

The liquidity premium is also applied to the TVFOG. All sensitivities in the report relate to the base yield curve with no liquidity premium.

"Expected return" for the analysis of embedded value earnings – investment return assumptions

The expected return for the analysis of embedded value earnings is based on a projection from the start of period to end of period. This requires assumptions regarding the investment returns expected to be achieved over the period on different asset classes. The investment return assumptions (for this purpose only) are based on the "real world" returns expected by the Group. The use of real world investment assumptions gives a more realistic basis for the expected return calculation and allows for the risk underlying each asset. Any under or over performance will be reported through economic variance.

For fixed interest assets, the "real world" investment return assumptions are based on the gross redemption yield on the assets, less an allowance for defaults where appropriate, together with an adjustment to reflect the change over the period implied in the yield curve assumptions.

For equity assets for units where there is a substantial equity allocation, the investment return assumption is based on the long term "real world" expected return allowing for reversion to the mean over a period of five years. For equity assets for units without a material equity allocation the investment return assumption is based on the one year swap rate at the start of period plus a margin to reflect the additional risk associated with investment in this asset class.

For property assets, the investment return assumptions are based on the one year swap rate at the beginning of period plus a margin to reflect the additional risk associated with investment in this asset class.

These assumptions have been set by asset class and separately for each sub-fund in each life business in order to best reflect the actual assets held.

"Return on opening embedded value" (as shown in the Embedded value key results)

The return on opening embedded value is calculated as the sum of the annualized new business value, annualized expected contributions, economic variance for the year to date and operating and non-operating variances for the year to date divided by the opening embedded value less the start of period dividend and capital movements.

Participating business

Rates of future bonus or crediting rates have been set at levels consistent with the risk neutral investment return assumptions and current bonus plans. In the UK, bonus rates have been set so as to exhaust any remaining assets in the relevant long-term funds. In certain scenarios shareholder injections may be required to meet existing guaranteed benefits and this additional cost is included in the TVFOG.

In other European life businesses and in the U.S., bonuses have been set to be consistent with the investment return assumptions and with the book value approach used by these life businesses in practice. Existing practice, contractual and regulatory requirements as well as the reasonable expectations of policyholders are considered in setting bonuses.

Taxation
Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates or practices have been announced.

b) Operating assumptions
Demographic assumptions
The assumed future mortality, morbidity and lapse rates have been derived from recent operating experience and relevant industry statistics. Where operating experience or industry statistics are limited, the assumptions are derived from a best estimate of future developments and are subject to regular review as more experience emerges. Where appropriate, surrender and option take-up rate assumptions that vary according to the investment simulation under consideration have been used, based on an assessment of likely policyholder behavior.

The term over which group protection business policies are valued has been changed from the term up to the date of the first renewal option under the contract to a term equal to the period over which the policy is expected to be retained, i.e. the expected life time value of the policy. The life time value is only included for those businesses where reliable data exists so that renewal rates can be reasonably assessed and/or where renewals are not based on regular re-negotiations. Over years 2011 and 2012, and for smaller blocks of business beyond 2012, the life time value is included in new business when the policies renew such that this period will show an elevated level of new business value for this time period. After the in-force book has fully renewed the new business value will only be based on new policies and extraordinary premium increases or contract expansions.

Expense assumptions
Management expenses have been analyzed between expenses related to acquisition of new business, the maintenance of in-force business and, where appropriate, one-off project costs. Future expense assumptions allow for expected levels of maintenance expenses. In addition, Corporate Center expenses relating to covered business have been allocated to business units and are reflected in assumed future expenses.

The maintenance expense assumptions allow for the expected cost of providing future service benefits in respect of the Group staff pension schemes. An adjustment to the embedded value is noted in Section 12n) for pension scheme liabilities under IAS 19 and no allowance is made in the expense assumptions for any contributions as a result of past service benefits.

No allowance has been made for future productivity improvements in the expense assumptions.

Where service companies have been valued on a look through basis, the value of profits or losses arising from these services have been included in the embedded value and new business value.

In countries where significant development work is performed these are shown under "Development Expenses".

The restart of business in Luxembourg is treated as a start-up operation with acquisition and maintenance expenses set at expected medium term levels. Any actual expenses incurred in excess of policy allowances is treated as an expense overrun and shown as an expense experience variation.

c) Dynamic decisions
To reflect more realistically the outcome of stochastic simulations, the assumptions for each simulation make allowance for the behaviors of policyholders and management actions in response to the investment conditions modeled.

In many life businesses, policyholders can exercise an option against the life company in certain circumstances, such as to surrender a policy. This leads to an increase in the assumed lapse rates when interest rates rise (or a corresponding reduction when interest rates fall). This dynamic effect in relation to lapse rates has been allowed for in the stochastic models.

The stochastic models allow, where appropriate, for management actions to change investment strategy in response to market conditions.

Appendix

Embedded value results Global Life, by region

in USD millions, for the year ended December 31	North America	
	2011	2010[1]
Embedded value information:		
Opening embedded value	**2,818**	2,655
Dividends and capital movements start of period	(35)	(34)
New business value Global Life	60	68
Expected contribution	125	115
Experience variance	(18)	(40)
Assumption changes	86	(258)
Other operating variances	(28)	86
Operating earnings	**226**	(30)
Economic variance	(26)	283
Other non-operating variances	(4)	3
Embedded value earnings	**196**	256
Dividends and capital movements end of period	(198)	(86)
Non-controlling interests	–	–
Foreign currency translation effects	–	–
Closing embedded value	**2,780**	2,792
New business information:		
Annual premiums	90	90
Single premiums	211	77
Annual premium equivalent (APE)	111	98
Present value of new business premiums (PVNBP)	1,024	941
New business value	**60**	68
New business margin (% of APE)	54.3%	69.8%
New business margin (% of PVNBP)	5.9%	7.2%
Returns		
Expected return	4.5%	4.4%
Operating return	8.1%	(1.1%)
Embedded value return	7.0%	9.8%

[1] 2010 values are calculated without liquidity premium and using a cost of capital charge of 2.5 percent applied to CRNHR

Latin America		Europe		Asia-Pacific and Middle East		Other		Global Life	
2011	2010[1]	**2011**	2010[1]	**2011**	2010[1]	**2011**	2010[1]	**2011**	2010[1]
631	499	**10,334**	11,195	**2,548**	2,283	**142**	120	**16,472**	16,752
(14)	47	(464)	(447)	(7)	5	(5)	2	(525)	(427)
71	52	547	529	136	118	167	49	980	817
34	28	482	395	98	85	–	–	740	622
(21)	19	23	(20)	(34)	(32)	(14)	(8)	(63)	(82)
15	(5)	(32)	457	(202)	(26)	(18)	(5)	(151)	162
11	8	(67)	10	(23)	(23)	(35)	(27)	(143)	54
108	103	**953**	1,370	**(25)**	122	**100**	9	**1,363**	1,574
28	26	(1,289)	(1,247)	(31)	92	(3)	–	(1,322)	(846)
(5)	(48)	173	309	–	10	(5)	2	160	277
131	81	**(163)**	432	**(56)**	225	**92**	11	**200**	1,005
1	–	174	(867)	(33)	5	2	(4)	(55)	(952)
(1)	(2)	(53)	(52)	–	–	–	–	(54)	(54)
(66)	13	(126)	(269)	12	60	(14)	13	(194)	(182)
683	638	**9,701**	9,992	**2,465**	2,577	**217**	142	**15,846**	16,141
262	150	1,475	1,245	446	411	107	77	2,379	1,973
506	522	14,082	15,508	784	513	541	641	16,125	17,261
313	202	2,883	2,796	524	463	161	141	3,992	3,699
1,320	994	26,784	26,071	2,943	2,588	1,328	803	33,399	31,399
71	52	**547**	529	**136**	118	**167**	49	**980**	817
22.6%	25.9%	19.0%	18.9%	25.9%	25.5%	103.7%	35.0%	24.5%	22.1%
5.3%	5.3%	2.0%	2.0%	4.6%	4.6%	12.5%	6.1%	2.9%	2.6%
5.4%	5.1%	4.9%	3.7%	3.9%	3.7%	0.4%	0.3%	4.6%	3.8%
17.6%	18.9%	9.7%	12.7%	(1.0%)	5.3%	73.2%	7.4%	8.5%	9.6%
21.3%	14.8%	(1.7%)	4.0%	(2.2%)	9.8%	67.2%	8.9%	1.3%	6.2%

Appendix *continued*

Embedded value results Europe

in USD millions, for the year ended December 31	United Kingdom		Germany	
	2011	2010[1]	**2011**	2010[1]
Embedded value information:				
Opening embedded value	**3,633**	3,685	**2,047**	2,401
Dividends and capital movements start of period	(344)	(375)	31	(47)
New business value Global Life	154	131	171	171
Expected contribution	116	118	103	81
Experience variance	87	(1)	(2)	(3)
Assumption changes	(74)	79	43	444
Other operating variances	(1)	28	151	44
Operating earnings	**282**	354	**466**	737
Economic variance	(105)	(49)	(306)	(871)
Other non-operating variances	189	59	–	–
Embedded value earnings	**365**	364	**160**	(133)
Dividends and capital movements end of period	54	–	(105)	(207)
Non-controlling interests	–	–	(5)	(4)
Foreign currency translation effects	(17)	(130)	(70)	(161)
Closing embedded value	**3,692**	3,544	**2,058**	1,848
New business information:				
Annual premiums	554	393	493	460
Single premiums	6,814	5,682	950	1,932
Annual premium equivalent (APE)	1,235	961	588	653
Present value of new business premiums (PVNBP)	11,830	8,730	5,530	6,909
New business value	**154**	131	**171**	171
New business margin (% of APE)	12.5%	13.6%	29.1%	26.2%
New business margin (% of PVNBP)	1.3%	1.5%	3.1%	2.5%
Returns				
Expected return	3.5%	3.6%	5.0%	3.4%
Operating return	8.6%	10.7%	22.4%	31.3%
Embedded value return	11.1%	11.0%	7.7%	(5.7%)

[1] 2010 values are calculated without liquidity premium and using a cost of capital charge of 2.5 percent applied to CRNHR

Europe									
Switzerland		Ireland		Spain		Rest of Europe		Europe total	
2011	2010[1]	**2011**	2010[1]	**2011**	2010[1]	**2011**	2010[1]	**2011**	2010[1]
2,323	2,010	**1,256**	1,286	**279**	816	**794**	997	**10,334**	11,195
(162)	(12)	–	–	–	–	11	(13)	(464)	(447)
9	4	67	82	107	107	38	34	547	529
143	105	25	22	36	29	58	41	482	395
(4)	(10)	(58)	11	(1)	(10)	1	(8)	23	(20)
19	(55)	(7)	21	(31)	3	17	(35)	(32)	457
(71)	(10)	(77)	(47)	4	(13)	(73)	8	(67)	10
96	33	**(49)**	90	**117**	115	**42**	40	**953**	1,370
(128)	109	(43)	(32)	(193)	(205)	(514)	(199)	(1,289)	(1,247)
(6)	–	–	–	31	257	(41)	(6)	173	309
(38)	142	**(93)**	59	**(45)**	166	**(513)**	(165)	**(163)**	432
–	(35)	28	–	(23)	(625)	219	–	174	(867)
–	–	–	–	(47)	(48)	–	–	(53)	(52)
3	231	(35)	(84)	(1)	(58)	(6)	(67)	(126)	(269)
2,126	2,337	**1,156**	1,261	**164**	251	**506**	751	**9,701**	9,992
88	56	125	132	93	93	122	111	1,475	1,245
630	336	2,054	2,460	2,733	4,168	901	929	14,082	15,508
151	89	331	378	367	509	212	204	2,883	2,796
1,593	823	2,720	3,164	3,328	4,502	1,782	1,943	26,784	26,071
9	4	**67**	82	**107**	107	**38**	34	**547**	529
6.0%	3.9%	20.2%	21.8%	29.2%	21.0%	18.0%	16.8%	19.0%	18.9%
0.6%	0.4%	2.5%	2.6%	3.2%	2.4%	2.1%	1.8%	2.0%	2.0%
6.6%	5.2%	2.0%	1.7%	13.0%	3.5%	7.3%	4.1%	4.9%	3.7%
4.4%	1.7%	(3.9%)	7.0%	41.8%	14.1%	5.2%	4.0%	9.7%	12.7%
(1.8%)	7.1%	(7.4%)	4.6%	(16.0%)	20.4%	(63.7%)	(16.8%)	(1.7%)	4.0%

Financial information

Statement by Directors

Statement by Directors

This embedded value report has been prepared in all material respects in accordance with the Market Consistent Embedded Value Principles and Guidance issued by the European Insurance CFO Forum in October 2009.

The methodology and assumptions underlying the report are described in Sections 12 and 13.

Auditor’s report on embedded value

To the Board of Directors of
Zurich Financial Services Ltd

Auditor’s Report on Embedded Value

We have audited the Embedded Value Report (“EV Report”) of Zurich Financial Services Ltd included in pages 283 to 316 of the Annual Report 2011 for the year ended December 31, 2011. The embedded value information included in the EV Report has been prepared in accordance with the Market Consistent Embedded Value (“MCEV”) Principles and Guidance issued by the European Insurance CFO Forum, as described on pages 303 to 308.

The Board of Directors is responsible for the preparation of the EV Report, including the applied methodology and the assumptions used. Our responsibility is to express an opinion on whether the EV Report has been properly prepared in accordance with the MCEV Principles and Guidance.

We conducted our audit in accordance with Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the EV Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the EV Report. An audit also includes assessing the principles used and significant estimates made by the Board of Directors, as well as evaluating the adequacy of the overall presentation of the EV Report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the EV Report of Zurich Financial Services Ltd for the year ended December 31, 2011 has been properly prepared in accordance with the MCEV Principles and Guidance.

This report has been prepared solely for the Board of Directors of Zurich Financial Services Ltd in accordance with the terms of our engagement letter. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown except where explicitly agreed by our prior consent in writing. This report does not extend to any financial statements of Zurich Financial Services Ltd.

PricewaterhouseCoopers AG

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

Zurich, February 15, 2012

Holding company

Principal activity and review of the year

Zurich Financial Services Ltd was incorporated on April 26, 2000, and is the holding company for the Zurich Financial Services Group with a principal activity of holding subsidiary companies. The company is listed on the SIX Swiss Exchange.

Net income after taxes for the year was CHF 961 million compared with CHF 70 million in 2010. The increase was mainly driven by higher dividend income from its subsidiary Zurich Insurance Company Ltd which paid a dividend of CHF 1.5 billlion, compared with no dividend payment in 2010, partially offset by higher other financial expenses. In 2011, Zurich Financial Services Group redeemed the three remaining series of Trust Capital Securities issued through the Zurich RegCaPS Funding Trusts. After the redemption, the trusts that issued these securities, and the related limited partnerships and limited liability companies were liquidated, resulting in a net loss of CHF 435 million, included in other financial expenses. A further loss of CHF 256 million resulted from impairments on investments in subsidiaries.

The Annual General Meeting on March 31, 2011, approved a gross dividend of CHF 17.00 per share. The change in the tax legislation based on the Swiss Corporate Tax reform II, that became effective as of January 1, 2011, allowed for the payment of the dividend free of Swiss withholding tax to shareholders out of a newly formed capital contribution reserve.

Shareholders' equity decreased by CHF 1,333 million to CHF 16,610 million as of December 31, 2011, from CHF 17,943 million as of December 31, 2010, as a result of the dividend paid in 2011, partially offset by net income after taxes for the year and capital contributed through the issuance of new shares. The Board will propose a dividend from the capital contribution reserve of CHF 17.00 per share in respect of the year 2011 for approval at the Annual General Meeting to be held on March 29, 2012.

Income statements

in CHF thousands, for the years ended December 31	Notes	2011	2010
Revenues			
Interest income		241,003	187,218
Dividend income		1,521,569	36,482
Other financial income	3	100,735	128,897
Other income		110	29,010
Total revenues		1,863,417	381,607
Expenses			
Administrative expense	4	(94,927)	(19,694)
Other financial expense	5	(800,204)	(285,202)
Tax expense	6	(7,600)	(6,993)
Total expenses		(902,731)	(311,889)
Net income after taxes		**960,686**	**69,718**

Holding company *continued*

Balance sheets

Assets

in CHF thousands, as of December 31	Notes	2011	2010
Non-current assets			
Investments in subsidiaries	7	11,854,569	11,851,474
Subordinated loans to subsidiaries	8	4,876,097	8,013,379
Total non-current assets		16,730,666	19,864,853
Current assets			
Cash and cash equivalents		13,432	17,372
Loans to subsidiaries		491,300	612,471
Receivables from third parties		856	3,390
Accrued income from third parties		14	–
Accrued income from subsidiaries		207,579	3,227
Derivatives with subsidiaries		4,084	4,706
Total current assets		717,265	641,166
Total assets		**17,447,931**	**20,506,018**

Liabilities and shareholders' equity

Short-term liabilities			
Loans from subsidiaries		202,794	2,014,308
Other liabilities to subsidiaries		–	449
Other liabilities to third parties		1,511	1,456
Other liabilities to shareholders		377	304
Accrued liabilities to subsidiaries		14,578	13,683
Accrued liabilities to third parties		49,713	26,416
Derivatives with subsidiaries		3,315	17,409
Total short-term liabilities		272,288	2,074,025
Long-term liabilities			
Long-term loans from subsidiaries		490,834	488,923
Provisions		75,008	–
Total long-term liabilities		565,842	488,923
Total liabilities		838,130	2,562,948
Shareholders' equity (before appropriation of available earnings)			
Share capital	10	14,739	14,659
Legal reserves:		13,322,807	14,341,140
Capital contribution reserve	*11*	*12,981,667*	*14,000,000*
General capital contribution reserve		*12,646,757*	*14,000,000*
Reserve for treasury shares	*12*	*334,910*	–
General legal reserve		*341,140*	–
Reserve for treasury shares		–	*341,140*
Free reserve:			
As of January 1		*332,986*	*3,425,820*
Transfer from/to capital contribution reserve		*2,479,883*	*(3,223,839)*
Dividends paid		*(2,479,883)*[1]	–
Other movements		–	*131,005*
Free reserve, as of December 31		332,986	332,986
Retained earnings:			
As of January 1		*3,254,285*	*5,502,586*
Dividends paid		–	*(2,318,019)*[2]
Transfer to capital contribution reserve		*(1,275,702)*	–
Adjusted for appropriations		*1,978,583*	*3,184,567*
Net income after taxes		960,686	69,718
Retained earnings, as of December 31		2,939,269	3,254,285
Total shareholders' equity (before appropriation of available earnings)		16,609,801	17,943,070
Total liabilities and shareholders' equity		**17,447,931**	**20,506,018**

[1] Dividends paid in the year, proposed in respect of the 2010 result
[2] Dividends paid in the year, proposed in respect of the 2009 result

Notes to the financial statements

1. Basis of Presentation

Zurich Financial Services Ltd (the Company) presents its financial statements in accordance with Swiss law.

Unless otherwise stated all amounts in these financial statements including the notes are shown in Swiss franc thousands, rounded to the nearest thousand.

2. Summary of significant accounting policies

a) Exchange rates

Unless otherwise stated, assets and liabilities expressed in currencies other than Swiss francs are translated at year end exchange rates. Revenues and expenses are translated using the exchange rate at the date of the transaction. Unrealized exchange losses are recorded in the income statements and unrealized exchange gains are deferred until realized.

b) Investments in subsidiaries

Investments in subsidiaries are equity interests, held on a long-term basis for the purpose of the holding company's business activities. They are carried at cost less adjustments for impairment.

c) Accrued income

Income is accrued for interest which is earned but not yet due for payment at the end of the reporting period.

d) Derivatives

Derivatives are carried at market value with changes in the market value recorded in the income statements.

3. Other financial income

Other financial income includes primarily foreign exchange gains and net gains on derivatives with subsidiaries.

4. Administrative expense

Administrative expense includes directors' fees of CHF 4.1 million for 2011 and CHF 3.5 million for 2010 (see note 15) and overhead expenses of CHF 10 million for 2011 and 2010. In addition, administrative expense for 2011 includes CHF 75.3 million in respect of an irrevocable commitment made by the Company on behalf of the Zurich Financial Services Group to the Z Zurich Foundation to fund its charitable activities.

5. Other financial expense

Other financial expense includes a loss of CHF 435 million related to the redemption of the three remaining series of Trust Capital Securities issued through the Zurich RegCaPS Funding Trusts. After the redemption, the trusts that issued these securities, and the related limited partnerships and limited liability companies were liquidated.

Additionally, impairments on investments in subsidiaries amount to CHF 256 million in 2011 and CHF 80 million in 2010, respectively.

6. Tax expense

The tax expense consists of income, capital and other taxes.

Holding company *continued*

7. Investments in subsidiaries

Investment in subsidiaries

as of December 31	2011		2010	
	Carrying value[1]	**Voting rights in %**	Carrying value[1]	Voting rights in %
Zurich Insurance Company Ltd	11,088,466	100.00	11,087,485	100.00
Zurich Financial Services EUB Holdings Ltd	607,936	99.90	727,936	99.90
Farmers Group, Inc.	157,992	12.10	33,907	10.40
Allied Zurich Limited	175	100.00	175	100.00
Other investments in subsidiaries	–	–	1,971	–
Total	**11,854,569**		**11,851,474**	

[1] in CHF thousands

The investment in Zurich Financial Services EUB Holdings Limited was increased through a capital contribution of GBP 95 million (CHF 136 million), and subsequently impaired by CHF 256 million.

As part of the liquidation of its investments, after the redemption of the remaining Trust Capital Securities, Zurich Financial Services received the Farmers Group, Inc. class C shares that were linked to these securities.

8. Subordinated loans to subsidiaries

Subordinated loans, which include loans to Zurich Insurance Company Ltd, decreased by CHF 3,137 million to CHF 4,876 million as of December 31, 2011, from CHF 8,013 million as of December 31, 2010, mainly due to the repayment of a loan to Zurich Insurance Company Ltd.

9. Commitments and contingencies

Zurich Financial Services Ltd has provided unlimited guarantees in support of various entities belonging to the Zurich Capital Markets group of companies. Zurich Financial Services Ltd has entered into various support agreements and guarantees for the benefit of certain of its subsidiaries and their directors. These contingencies amounted to CHF 11,894 million as of December 31, 2011, and CHF 11,842 million as of December 31, 2010. CHF 8,150 million of CHF 11,894 million relate to guarantees in the aggregate of GBP 5,595 million provided to a fully owned subsidiary and some of its directors in connection with the rationalization of the Group's top legal holding structure which resulted in the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009. Furthermore, Zurich Financial Services Ltd has issued an unlimited guarantee in favor of the Institute of London Underwriters in relation to business transferred to Zurich Insurance plc, from a group company which no longer has insurance licenses.

Zurich Financial Services Ltd knows of no event that would require it to satisfy any of these guarantees or to take action under a support agreement.

10. Shareholders' equity

a) Issued share capital

In 2011, there were no changes to the ordinary share capital or to the authorized share capital.

At the Annual General Meeting on March 30, 2010, the shareholders approved a share capital reduction of CHF 183,640.40 from CHF 14,747,306.80 to CHF 14,563,666.40 by canceling 1,836,404 registered shares. The effective date of the capital reduction was June 15, 2010. In addition, the shareholders approved an increase in the authorized share capital to a new maximum of CHF 1,000,000, allowing for enhanced financial flexibility of the company for future capital management, and an increase in the contingent share capital to a new maximum of CHF 500,000 which can be issued to employees of Zurich Financial Services Ltd and its subsidiaries in connection with employee participation plans. During the years 2011 and 2010, a total of 798,926 shares and 950,232 shares, respectively, were issued to employees out of the contingent capital.

b) Authorized share capital

Until March 30, 2012, the Board of Zurich Financial Services Ltd is authorized to increase the share capital by an amount not exceeding CHF 1,000,000 by issuing up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board determines the date of issue of such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the beginning of dividend entitlement.

The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with a subsequent offer of those shares to current shareholders. The Board may allow the expiry of pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or withdraw the pre-emptive rights of shareholders and to allocate them to third parties if the shares are to be used for the take-over of an enterprise, or parts of an enterprise or of participations or if issuing shares for the financing including re-financing of such transactions, or for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges.

c) Contingent share capital

Capital market instruments and option rights to shareholders

The share capital of Zurich Financial Services Ltd may be increased by an amount not exceeding CHF 1,000,000 by the issuance of up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each (i) by exercising of conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services Ltd or one of its Group companies in national or international capital markets; and/or (ii) by exercising option rights which are granted to current shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board of Directors is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at the current convertible bond or warrant issue conditions. The conversion rights may be exercisable during a maximum of ten years and option rights for a maximum of seven years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions, whereby for shares of Zurich Financial Services Ltd the quoted share price is to be used as a basis.

Employee participation

On January 1, 2010, the contingent share capital, to be issued to employees of Zurich Financial Services Ltd and Group companies, amounted to CHF 264,383 or 2,643,831 fully paid registered shares with a nominal value of CHF 0.10 each. At the Annual General Meeting on March 30, 2010, the shareholders approved the proposed increase of the contingent share capital for the issuance of new shares to employees of the Group to a new maximum of CHF 500,000. This increase was approved and registered with the Commercial Register on April 1, 2010. On January 1, 2011, the contingent share capital, to be issued to employees of Zurich Financial Services Ltd and Group companies, amounted to CHF 470,836.30 or 4,708,363 fully paid registered shares with a nominal value of CHF 0.10 each.

During 2011 and 2010, 798,926 shares and 950,232 shares, respectively, were issued to employees out of the contingent share capital under the program described above. Of the total 798,926 registered shares issued to employees during the year 2011, 607,254 shares were issued in the period from January 1, 2011 to March 31, 2011 and 191,672 registered shares were issued as from April 1, 2011 to December 31, 2011. As a result, on December 31, 2011 and 2010, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Financial Services Ltd and its subsidiaries, amounted to CHF 390,943.70 and CHF 470,836 or 3,909,437 and 4,708,363 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each. The pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares to employees is subject to one or more regulations to be issued by the Board of Directors and take into account performance, functions, levels of responsibility and criteria of profitability. Shares may be issued to the employees at a price lower than that quoted on the stock exchange.

Holding company *continued*

11. Capital contribution reserve

As of January 1, 2011, a new Swiss tax regulation based on the Swiss Corporate Tax reform II became effective, allowing for payments free of Swiss withholding tax to shareholders out of a new capital contribution reserve, created from additional paid in capital since January 1, 1997.

Capital contribution reserve

in CHF thousands	2011	2010
As of January 1	14,000,000	–
Transfer from general legal reserve	–	10,776,161
Transfer from free reserve	–	3,223,839
Appropriation of available earnings		
Transfer from retained earnings	*1,275,702*	–
Transfer to free reserve for dividend payment	*(2,479,883)*	–
Agio on share-based payment transactions	185,848	–
As of December 31	**12,981,667[1]**	14,000,000

[1] Of this amount CHF 2,045 thousands may not qualify for Swiss withholding tax exempt payments to shareholders according to the current treatment of issuance stamp tax by the Federal tax administration.

12. Capital contribution reserve (reserve for treasury shares)

This reserve fund corresponds to the purchase value of all Zurich Financial Services Ltd shares held by companies in the Zurich Financial Services Group as shown in the table below.

Capital contribution reserve (reserve for treasury shares)

	Number of shares 2011	**Purchase value 2011[1]**	Number of shares 2010	Purchase value 2010[1]
As of January 1	1,399,080	341,140	3,269,338	888,269[2]
Additions during the year	100	20	–	–
Sales during the year	(25,788)	(6,250)	(33,854)	(8,243)
Decrease due to share cancellation	–	–	(1,836,404)	(538,886)
As of December 31	**1,373,392**	**334,910**	**1,399,080**	**341,140**
Average purchase price of additions, in CHF		199		–
Average selling price, in CHF		256		281

[1] in CHF thousands
[2] The cost value of the treasury shares held by Zurich Insurance Company Ltd was adjusted in 2010.

At the Annual General Meeting 2010 the shareholders approved the cancellation of the remaining 1,836,404 shares from the share buyback program authorized by the Board of Directors on February 13, 2008. The cancellation was effective June 15, 2010.

13. Shareholders

The shares registered in the share ledger as of December 31, 2011, were owned by 124,920 shareholders of which 119,021 were private individuals holding 23.9 percent of the shares (or 14.9 percent of all outstanding shares), 2,051 were foundations and pension funds holding 7.6 percent of the shares (or 4.7 percent of all outstanding shares), and 3,848 were other legal entities holding 68.5 percent of the shares (or 42.6 percent of all outstanding shares).

According to the information available on December 31, 2011, Zurich Financial Services Ltd is not aware of any person or institution, other than BlackRock, Inc., New York, Norges Bank, Oslo and Aberdeen Asset Management PLC, Aberdeen, which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Financial Services Ltd representing three percent or more of its issued shares.

Information required by art. 663c paragraph 3 of the Swiss Code of Obligations on the share and option holdings of the members of the Board of Directors and the members of the Group Executive Committee are disclosed in note 16.

14. Information on the risk assessment process

Refer to the disclosures in the Risk review on pages 103 to 149 of this Annual Report.

15. Remuneration of the Board of Directors and the Group Executive Committee

This note sets out details of the remuneration of the Board of Directors and of the members of the Group Executive Committee (GEC) in accordance with the information required by articles 663b^{bis} and 663c paragraph 3 of the Swiss Code of Obligations. This information should be read in connection with the unaudited Remuneration Report, set out on pages 48 to 73 in which additional details of the remuneration principles and architecture can be found.

The remuneration paid to the Directors for their Board membership of Zurich Financial Services Ltd, the holding company of the Group, and Zurich Insurance Company Ltd is paid entirely by Zurich Financial Services Ltd. The fees for Mr de Swaan's additional Board membership in Zurich Insurance plc (ZIP) and Zurich Life Assurance plc (ZLAP) and for the additional Board memberships of Mrs Bies and Mr Nicolaisen in Zurich Holding Company of America (ZHCA) are paid by the respective companies. Remuneration paid to the members of the GEC is not paid by Zurich Financial Services Ltd, but by the Group entities where they are employed. The remuneration shown below includes the remuneration that the members of the Board and the GEC received for all their functions in the Group. As the financial statements of the holding company are presented in Swiss francs, all figures are shown in Swiss francs, with totals also presented in U.S. dollars. Year-on-year comparison in Swiss francs is affected by the actual exchange rates during the year.

Remuneration of Directors

The following tables set out the total fees paid to Directors of Zurich Financial Services Ltd. All the Directors are also Directors of Zurich Insurance Company Ltd. The Directors receive a combined fee for their work in connection with Zurich Financial Services Ltd and Zurich Insurance Company Ltd. In addition, Mr de Swaan is a member of the Board of both Zurich Insurance plc and Zurich Life Assurance plc and Mrs Bies and Mr Nicolaisen are members of the Board in Zurich Holding Company of America (ZHCA). The fee structure for Directors was reviewed and updated for 2011, and details on those changes were disclosed last year and are set out in the Remuneration Report on page 60.
A fixed portion of the fee continues to be allocated towards the provision of three-year sales-restricted Zurich Financial Services Ltd shares. The portion for the Chairman was set at CHF 333,500 in 2011 (USD 233,500 or CHF 248,584 respectively for 2010), and the portion for the other members of the Board of Directors at CHF 80,000 in 2011 (USD 68,500 or CHF 72,925 respectively for 2010). The overall fees are set out in the following tables:

Directors' fees 2011

in CHF [1]	2011[1]						
	Basic Fee	Committee Fee[2]	Chair Fee[3]	Other Fee[4]	Total Fees	Of which paid in Cash[5]	Of which allocated in Shares[6, 7]
M. Gentz, Chairman[8]	1,000,000	–	–	–	1,000,000	666,500	333,500
J. Ackermann, Vice Chairman[8]	375,000	–	–	–	375,000	250,000	125,000
S. Bies, Member	240,000	50,000	–	50,000[9]	340,000	260,000	80,000
V. Chu, Member	240,000	50,000	–	–	290,000	210,000	80,000
Th. Escher, Member	240,000	50,000	–	–	290,000	210,000	80,000
F. Kindle, Member	240,000	50,000	–	–	290,000	210,000	80,000
A. Meyer, Member	240,000	50,000	–	–	290,000	210,000	80,000
D. Nicolaisen, Member	240,000	50,000	40,000	50,000[9]	380,000	300,000	80,000
V.L. Sankey, Member	240,000	50,000	30,000	–	320,000	240,000	80,000
T. de Swaan, Member	240,000	50,000	30,000	72,500[9]	392,500	312,500	80,000
R. Watter, Member	240,000	50,000	–	–	290,000	210,000	80,000
Total in CHF[10]	**3,535,000**	**450,000**	**100,000**	**172,500**	**4,257,500**	**3,079,000**	**1,178,500**
Total in USD	**3,954,360**	**503,384**	**111,863**	**192,964**	**4,762,571**	**3,444,264**	**1,318,306**

Holding company *continued*

Directors' fees 2010

in CHF [1]	2010[1]						
	Basic Fee	Committee Fee[2]	Chair Fee[3]	Other Fee[4]	Total Fees	Of which paid in Cash[5]	Of which allocated in Shares[6,12]
M. Gentz, Chairman[8]	745,220	–	–	–	745,220	496,636	248,584
Ph. Pidoux, Vice Chairman[8, 11]	87,830	–	–	–	87,830	87,830	–
J. Ackermann, Vice Chairman[11]	263,489	–	–	–	263,489	208,795	54,694
S. Bies, Member	218,243	42,584	–	53,230[11]	314,057	241,132	72,925
V. Chu, Member	218,243	42,584	–	–	260,827	187,902	72,925
Th. Escher, Member	218,243	42,584	–	–	260,827	187,902	72,925
F. Kindle, Member	218,243	42,584	–	–	260,827	187,902	72,925
A. Meyer, Member	218,243	42,584	–	–	260,827	187,902	72,925
D. Nicolaisen, Member	218,243	42,584	31,938	53,230[11]	345,995	273,070	72,925
V.L. Sankey, Member	218,243	42,584	21,292	–	282,119	209,194	72,925
T. de Swaan, Member	218,243	42,584	21,292	53,230[11]	335,349	262,424	72,925
R. Watter, Member	218,243	42,584	–	–	260,827	187,902	72,925
Total in CHF[10]	**3,060,726**	**383,256**	**74,522**	**159,690**	**3,678,194**	**2,718,591**	**959,603**
Total in USD	**2,875,000**	**360,000**	**70,000**	**150,000**	**3,455,000**	**2,553,625**	**901,375**

1 The remuneration shown in the tables is gross, based on the accrual principle and does not include any business-related expenses incurred in the performance of the Directors' services.
2 Committee members receive a cash fee of CHF 50,000 (USD 40,000 in 2010) for all Committees on which they serve, irrespective of the number. The Committees on which the Directors serve are set out in the Corporate Governance Report on page 30.
3 Committee chairs receive an annual fee of CHF 30,000 (USD 20,000 in 2010) and the chair of the Audit Committee receives an additional CHF 10,000 (USD 10,000 in 2010). The Committees on which the Directors serve and the chairs are set out in the Corporate Governance Report on page 30.
4 Directors who reside in the US received an additional fee of USD 10,000 per annum in 2010, this is discontinued in 2011.
5 The cash fees were previously defined in US Dollars, but paid in the actual currencies where the Board members reside, based on the relevant exchange rate at the dates of the payment. From 2011 onwards, the fees are designated in Swiss francs.
6 The shares allocated to the Directors are sales-restricted for three years.
7 As of June 30, 2011, Mr Gentz was allocated 1,523 shares, Mr Ackermann was allocated 571 shares, and the other Board members were allocated 365 shares based on a full year's membership. The share price (CHF 218.90) as of June 15, 2011 was adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash. The amounts shown in the table above reflect the fixed amount in Swiss francs for 2011 and in U.S. dollars for 2010 (translated into Swiss francs) of the portion of the fee to be allocated in shares.
8 Neither the Chairman nor the Vice Chairman receive any additional fees for their Committee work.
9 In addition to the fees received as Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd, Mrs Bies, Mr Nicolaisen and Mr de Swaan earned fees for their board memberships of the following Zurich Financial Services Group companies:
– In 2011, Mrs Bies and Mr Nicolaisen earned CHF 50,000 for their membership of the board of Zurich Holding Company of America (ZHCA). In 2010, both received an annual fee of USD 40,000 as well as a US Residence Fee of USD 10,000.
– In 2011, Mr de Swaan earned CHF 50,000 p.a. for the first 6 months and CHF 75,000 p.a. for the second 6 months (each pro-rated) for his membership of the board of Zurich Insurance plc and of the board of Zurich Life Assurance plc. He also earned an annual fee of CHF 10,000 for being chair of the audit committees of these two companies. In 2010, he received an annual fee of USD 40,000 for his membership of the board and an annual fee of USD 10,000 for being chair of the audit committees of these two companies.
10 In line with applicable laws, Zurich paid the company-related portion of contributions to social security systems, which amounted to CHF 142,832 in 2011. The corresponding contributions amounted to USD 85,136 (or CHF 88,527 respectively) in 2010. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above.
11 At the Annual General Meeting on March 30, 2010 Mr Pidoux retired from the Board and Mr Ackermann was elected to the Board and was appointed Vice Chairman.
12 As of June 30, 2010, Mr Gentz was allocated 1,071 shares, Mr Ackermann was allocated 235 shares, and the other Board members were allocated 314 shares based on a full year's membership. The share price (CHF 246.50) and the exchange rate (USD/CHF 1.131) as of June 15, 2010, were adopted to calculate the number of shares based on the fixed portion of the fee allocated in shares for the respective members. Where the value of the allocated shares did not equal the value of the portion of the fee to be allocated in shares, the difference was paid in cash. The amounts shown in the table above reflect the fixed amount in U.S. dollars (translated into Swiss francs) of the portion of the fee to be allocated in shares.

The Directors' fees are not pensionable. None of the Directors received any benefits-in-kind or any other compensation other than that set out in the tables above.

No Director gave up his or her function in 2011. Mr Pidoux retired from the Board at the Annual General Meeting during 2010. No termination payments were made to him.

Except for Mr Watter none of the Directors had outstanding loans, advances or credits as of December 31, 2011 or 2010. Unrelated to his Board membership and on terms and conditions available to other customers, Mr. Watter had a collateralized policy loan of CHF 2.5 million outstanding as of December 31, 2011 and 2010. The annual interest rate charged on the loan is 4 percent.

No benefits (or waiver of claims) have been provided to former members of the Board during the year 2011 or during the year 2010. Neither had any former member of the Board outstanding loans, advances or credits as of December 31, 2011 or 2010.

No benefits (or waiver of claims) have been provided to related parties of the Directors or related parties of former members of the Board during the year 2011, nor during the year 2010. Neither had any related party of the Directors or of former members of the Board outstanding loans, advances or credits as of December 31, 2011 or 2010.

Remuneration of Group Executive Committee

The total remuneration of the members of the GEC for 2011 comprised the value of cash compensation, pensions, other remuneration and the value of the target equity grants made under the Group's Long-Term Incentive Plan in 2011 and is calculated based on the same methodology as in 2010. Overall compensation of the GEC members in total and the overall compensation of the highest paid executive are set out in the following tables:

All GEC members (incl. the highest paid)

in CHF million[1], for the year ended December 31	**2011[2]**	2010[3]
Base salaries	11.20	11.90
Cash incentive awards earned for the year	12.70	13.10
Service costs for pension benefits[4]	3.00	3.20
Value of other remuneration[5]	3.00	3.80
Value of target performance share and restricted share grants[6]	15.50	7.60
Value of target performance option grants[6,7]	–	7.60
Total in CHF million[8]	**45.40**	**47.20**
Total in USD million	**50.30**	**45.80**

[1] The remuneration shown in the table is gross, based on the accrual principle and does not include any business related expenses incurred in the performance of the members' services.
[2] On the basis of 12 GEC members, of whom 9 served for the full year 2011.
[3] On the basis of 13 GEC members, of whom 8 served during the full year 2010.
[4] The amounts reflect the total value of pension benefits accruing to members of the GEC during 2011 and 2010, respectively, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service costs do not include the interest costs on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
[5] Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under employment contracts. Benefits-in-kind have been valued using market rates.
[6] The share and share option grants will vest in the future according to achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in Note 24 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 243.60 for 2011 and CHF 259.90 for 2010).
[7] From 2011 onwards, options are no longer granted.
[8] In line with applicable laws where the executives are employed, Zurich paid the company-related portion of contributions to social security systems, which amounted to CHF 2.0 million in 2011 and USD 2.1 million (CHF 2.1 million) in 2010. Since the contributions are based on full earnings, whereas benefits are capped, there is not a direct correlation between the costs paid to the social security system and the benefits received by the executives.

Holding company *continued*

Highest paid executive, Chief Executive Officer, Martin Senn

in CHF millions[1, 2], for the year ended December 31	2011	2010
Base salary	1.60	1.60
Cash incentive awards earned for the year	2.40	2.40
Service costs for pension benefits[2]	0.20	0.20
Value of other remuneration[3]	0.10	0.10
Value of target performance share and restricted share grants[4]	3.60	1.40
Value of target performance option grants[4, 5]	–	1.40
Total in CHF million	**7.90**	**7.10**
Total in USD million	**8.60**	**7.00**

1 The remuneration shown in the table is gross, based on the accrual principle and does not include any business related expenses incurred in the performance of the CEO's services.
2 The amounts reflect the total value of pension benefits, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service costs do not include the interest costs on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
3 Includes employee benefits, perquisites, benefits-in-kind and any other payments due under the employment contract. Benefits-in-kind have been valued using market rates.
4 The share and share option grants will vest in the future according to the achievement of defined performance conditions. The value of the share and share options assumes that the grant will vest in the future at 100% of the target level with the valuation of the options based on the Black-Scholes option pricing model as set out in Note 24 to the consolidated financial statements, the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 243.60 for 2011 and CHF 259.90 for 2010).
5 From 2011 onwards, options are no longer granted.

As of December 31, 2011 and 2010, there were no loans, advances or credits outstanding from GEC members.

During 2011, one member retired and another left the Group. Agreements with the departing members provided remuneration in accordance with their employment contracts. No termination payments were made. As described in last year's report the member retiring at the end of 2010 after long service with the Group is being retained as a consultant in 2011 and 2012. Recognizing the prior contractual obligations, adherence to post-employment obligations and the provision of services in 2011 the member received remuneration in the amount of CHF 2.1 million during 2011. No other former members of the GEC received remuneration in 2011.

Former members of the GEC are eligible to continue their mortgage loans following retirement on similar terms to those when they were employed, in line with the terms available to employees in Switzerland as stated above. As of December 31, 2011 and 2010 no former member of the Group Executive Committee had any outstanding loans, advances or credits.

No benefits (or waiver of claims) have been provided to related parties of GEC members or related parties of former members of the GEC during the year 2011 or 2010. Neither had any related party of GEC members or of former members of the GEC outstanding loans, advances or credits as of December 31, 2011 or 2010.

16. Shareholdings of the Board of Directors and the Group Executive Committee
Share and share option holdings of the Directors and of the members of the Group Executive Committee (GEC), who held office at December 31, 2011 and 2010, are set out below in accordance with the information required by article 663c paragraph 3 of the Swiss Code of Obligations. This information is also included in the unaudited Remuneration report, set out on pages 48 to 73 of the Annual Report in which additional details can be found.

Shareholdings of Directors

Directors' shareholdings

Number of Zurich Financial Services Ltd shares [1], as of December 31	Ownership of shares	
	2011	2010
M. Gentz, Chairman	6,868	5,345
J. Ackermann, Vice Chairman	806	235
S. Bies, Member	1,246	881
V. Chu, Member	1,246	881
Th. Escher, Member	7,084	6,164
F. Kindle, Member	16,529	11,164
A. Meyer, Member	2,853	2,488
D. Nicolaisen, Member	1,529	1,164
V.L. Sankey, Member	2,699	2,334
T. de Swaan, Member	1,529	1,164
R. Watter, Member	4,497	4,132
Total	**46,886**	**35,952**

[1] None of the Directors together with parties related to them held more than 0.5 percent of the voting rights as of December 31, 2011 or 2010, respectively.

All interests are beneficial, include sales-restricted shares allocated to the Directors as part of their fees and shares held by related parties of the Directors.

None of the Directors, nor any related party of a Director, hold any share options or conversion rights over Zurich Financial Services Ltd shares as of December 31, 2011 or 2010.

Share and share option holdings of the GEC members

The following table sets out the actual share and share option holdings of GEC members as of December 31, 2011 and 2010. In addition to any shares acquired in the market, the numbers include vested shares, whether sales-restricted or not, and vested share options received under the Group's Long-Term Incentive Plan. However, the table does not include the share interests of the members of the GEC through their participation in the currently unvested performance shares, unvested restricted shares or unvested performance share options.

All interests are beneficial and include Zurich Financial Services Ltd shares or share options held by parties related to the GEC members. One vested option gives the right to one share with normal voting and dividend rights. Further details on the overall number of share options allocated under the Group's Long-Term Incentive Plan and the terms of the options are set out in the tables "Summary of outstanding options". With effect from 2011, share option grants were discontinued. Those option grants made in the period up to and including 2010 continue to earn out in accordance with the terms and conditions of those grants.

Holding company *continued*

Share and vested share option holdings of the GEC members

Number of vested shares and vested share options [1], as of December 31	**2011**		2010	
	Ownership of shares	**Ownership of vested options over shares[2]**	Ownership of shares	Ownership of vested options over shares[2]
M. Senn, Chief Executive Officer	20,936	81,362	15,806	49,220
J. Amore, Senior Advisor[3]	–	–	21,590	102,147
M. Foley, Chief Executive Officer North America Commercial and Regional Chairman of the Americas	9,726	41,348	10,459	23,996
M. Greco, Chief Executive Officer General Insurance	7,847	36,885	5,387	15,809
K. Hogan, Chief Executive Officer Global Life	1,466	8,185	442	2,237
P. Hopkins, Chairman of the Board of Farmers Group, Inc. and former Regional Chairman of the Americas[4]	–	–	7,733	48,381
A. Lehmann, Chief Risk Officer and Regional Chairman of Europe	18,671	86,713	16,711	64,628
C. Orator, Chief Administrative Officer	5,868	12,987	5,026	14,035
C. Reyes, Chief Investment Officer	2,555	15,123	1,333	6,002
G. Riddell, Regional Chairman of Asia-Pacific & Middle East	22,182	62,685	19,071	67,640
K. Terryn, Group Head of Operations	2,239	16,391	1,187	10,233
P. Wauthier, Chief Financial Officer[5]	3,936	25,061	–	–
D. Wemmer, Chief Financial Officer and Regional Chairman of Europe[6]	–	–	17,102	67,816
	95,426	**386,740**	**121,847**	**472,144**

[1] None of the GEC members together with parties related to them held more than 0.5 percent of the voting rights as at December 31, 2011 or 2010, either directly or through share options.
[2] The distribution of the vested options according to the grants identified in the tables "Summary of outstanding options" is shown in the table below.
[3] Mr Amore retired on December 31, 2010.
[4] Mr Hopkins retired on June 30, 2011.
[5] Mr Wauthier was appointed on October 1, 2011.
[6] Mr Wemmer left the function on September 30, 2011.

The following tables show how the totals of vested share options owned by GEC members as of December 31, 2011 and 2010, are distributed according to the grants identified in the tables "Summary of outstanding options."

Distribution of vested share options 2011[1]

Number of vested share options as of December 31, 2011						Year of grant	Total
	2010	2009	2008	2007	2006	2005	
M. Senn	21,663	11,603	17,094	19,200	11,802	–	81,362
M. Foley	9,316	9,869	11,568	10,595	–	–	41,348
M. Greco	11,606	11,603	13,676	–	–	–	36,885
K. Hogan	3,974	4,211	–	–	–	–	8,185
A. Lehmann	11,606	11,603	17,094	17,028	13,420	15,962	86,713
Ch. Orator	2,437	1,142	3,589	3,034	2,785	–	12,987
C. Reyes	7,737	1,530	2,256	1,950	1,650	–	15,123
G. Riddell	8,670	8,868	14,330	18,623	12,194	–	62,685
K. Terryn	3,465	3,465	3,624	3,108	2,729	–	16,391
P. Wauthier[2]	3,141	3,141	4,627	4,675	3,939	5,538	25,061
Total	**83,615**	**67,035**	**87,858**	**78,213**	**48,519**	**21,500**	**386,740**

[1] Mr Hopkins retired on June 30, 2011. Mr Dailey was appointed as CEO of Farmers and member of the GEC as of January 1, 2012.
[2] Mr Wauthier took on the function on October 1, 2011.

Distribution of vested share options 2010

Number of vested share options as of December 31, 2010							Year of grant	Total
	2009	2008	2007	2006	2005	2004	2001	
M. Senn	6,164	12,054	19,200	11,802	–	–	–	49,220
J. Amore[1]	6,991	12,236	22,703	17,893	17,269	15,913	9,142	102,147
M. Foley	5,243	8,158	10,595	–	–	–	–	23,996
M. Greco	6,164	9,645	–	–	–	–	–	15,809
K. Hogan	2,237	–	–	–	–	–	–	2,237
P. Hopkins[2]	5,243	9,177	17,028	13,420	10	3,503	–	48,381
A. Lehmann	6,164	12,054	17,028	13,420	15,962	–	–	64,628
Ch. Orator	1,294	2,531	3,034	2,785	4,391	–	–	14,035
C. Reyes	812	1,590	1,950	1,650	–	–	–	6,002
G. Riddell	4,711	10,106	18,623	12,194	15,633	6,373	–	67,640
K. Terryn	1,841	2,555	3,108	2,729	–	–	–	10,233
D. Wemmer[3]	6,677	13,059	20,800	11,802	12,850	2,628	–	67,816
Total	**53,541**	**93,165**	**134,069**	**87,695**	**66,115**	**28,417**	**9,142**	**472,144**

[1] Mr Amore retired on December 31, 2010.
[2] Mr Hopkins retired on June 30, 2011.
[3] Mr Wemmer left the function on September 30, 2011.

The following tables set out additional details of the options outstanding for members of the GEC as at December 31, 2011 and 2010, respectively. Further details can be found in the unaudited Remuneration report, pages 48 to 73.

Holding company *continued*

Summary of outstanding options, 2011

as of December 31, 2011

Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2010	83,615	123,883	207,498	259.90	2017
2009	67,035	23,730	90,765	198.10	2016
2008	87,858	–	87,858	336.50	2015
2007	78,213	–	78,213	355.75	2014
2006	48,519	–	48,519	308.00	2013
2005	21,500	–	21,500	206.40	2012
Total	**386,740**	**147,613**	**534,353**		

Summary of outstanding options, 2010

as of December 31, 2010

Year of grant	Number of options vested	Number of options unvested	Total number of shares under option	Exercise price per share CHF	Year of expiry
2010	–	257,236	257,236	259.90	2017
2009	53,541	70,000	123,541	198.10	2016
2008	93,165	28,851	122,016	336.50	2015
2007	134,069	–	134,069	355.75	2014
2006	87,695	–	87,695	308.00	2013
2005	66,115	–	66,115	206.40	2012
2004	28,417	–	28,417	213.25	2011
2001	9,142	–	9,142	322.30	2012
Total	**472,144**	**356,087**	**828,231**		

Proposed appropriation of available earnings and capital contribution reserve

as of December 31	2011	2010
Registered shares eligible for dividends		
Eligible shares	147,385,822	146,586,896

in CHF thousands	2011	2010
Appropriation of available earnings as proposed by the Board of Directors		
Net income after taxes	960,686	69,718
Balance brought forward	1,978,583	3,184,567
Retained earnings	2,939,269	3,254,285
Transfer to capital contribution reserve	–	(1,275,702)[1]
Balance carried forward	2,939,269	1,978,583

[1] The Board of Directors proposes to transfer CHF 1,275,702 thousand from retained earnings to capital contribution reserve. Due to this transfer the capital contribution reserve reaches CHF 15,275,702 thousand which includes the approved capital contribution by the Federal Tax Administration as of September 30, 2010, and the capital contribution from shareholders through contingent capital from October 1, 2010 to December 31, 2010 of CHF 20,590 thousand.

in CHF thousands	Capital contribution reserve
Appropriation of capital contribution reserve	
Balance at January 1, 2012 (incl. reserve for treasury shares)	12,981,667
Transfer to free reserve for dividend payment out of capital contribution reserve	(2,505,559)[1]
Balance carried forward	10,476,108 [1]

[1] These figures are based on the issued share capital as of December 31, 2011. They may change following the issuance of shares out of contingent capital for employees after the balance sheet date (see note 10). Treasury shares are not entitled to dividends.

The Board of Directors proposes to the Annual General Meeting on March 29, 2012, to transfer CHF 2,506 million from the capital contribution reserve to the free reserve to be subsequently paid out as a dividend.

If this proposal is approved, a payment of CHF 17 per share exempt from Swiss withholding tax is expected to be paid starting from April 5, 2012.

Zurich, February 15, 2012

On behalf of the Board of Directors of Zurich Financial Services Ltd

Manfred Gentz

Report of the statutory auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Financial Services Ltd, Zurich

As statutory auditor, we have audited the financial statements of Zurich Financial Services Ltd, which comprise the income statement, balance sheet and notes (pages 319 to 332), for the year ended December 31, 2011.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2011, comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings (page 333) complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Richard Burger	Emel Can-Harrison
Audit expert	Audit expert
Auditor in charge	

Zurich, February 15, 2012

Auditor’s confirmation

Auditor’s Confirmation

To the Board of Directors of Zurich Financial Services Ltd, Zurich

Report in relation to the conditional capital increase

On your instructions, we have audited in accordance with Art. 653f, paragraph 1 Swiss Code of Obligations the issuance of new shares, which took place during the period of January 1, 2011, to December 31, 2011, according to the resolution of the general meeting of March 30, 2010.

It is the duty of the Board of Directors to perform the issuance of new shares in accordance with the requirements of the company’s statutes. Our responsibility is to perform audit procedures designed to test whether the issuance was performed in accordance with the law and requirements of the company’s statutes. We confirm that we meet the licensing and independence requirements as stipulated by Swiss law.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether material violations against legal and statutory requirements and deviations from the regulations as mentioned in the prospectus regarding the issuance of shares are detected. We have performed audit procedures appropriate to the circumstances and we believe that our audit provides a reasonable basis for our opinion.

In our opinion, the issuance of 798,926 registered shares with a par value of CHF 79,892.60 complies with Swiss law and the company’s articles of incorporation.

PricewaterhouseCoopers Ltd

Richard Burger Audit expert Auditor in charge	Frédéric Kocher Audit expert

Zurich, January 11, 2012

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Shareholder information

Zurich Financial Services Ltd registered share data

Key indicators

as of December 31	2011	2010
Number of shares issued	147,385,822	146,585,896
Number of dividend-bearing shares[1]	147,385,822	146,585,896
Market capitalization (in CHF millions at end of period)	31,319	35,503
Authorized capital, number of shares	10,000,000	10,000,000
Contingent capital, number of shares	13,909,437	14,708,363

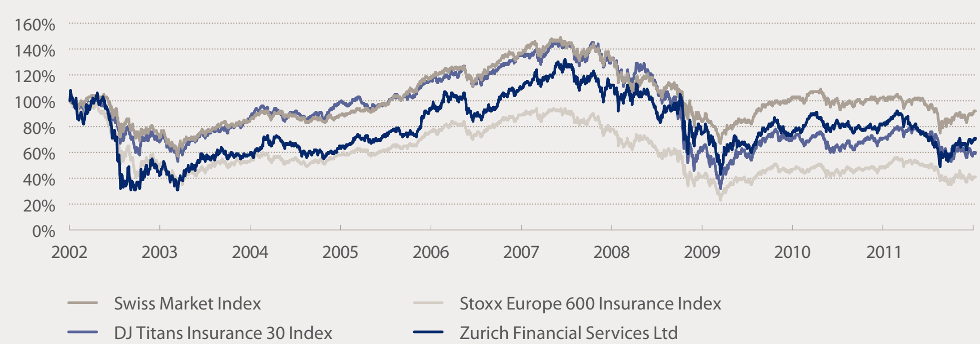
[1] Treasury shares are not entitled to dividends.

Per share data

in CHF	2011	2010
Gross dividend	17.00[1]	17.00
Basic earnings per share	22.79	24.53
Diluted earnings per share	22.62	24.33
Book value per share, as of December 31	203.15	202.18
Nominal value per share	0.10	0.10
Price at end of period	212.50	242.20
Price period high	274.50	271.20
Price period low	144.90	223.30

[1] Proposed dividend, subject to approval by shareholders at the Annual General Meeting 2012; expected payment date as from April 5, 2012. As the dividend payment will be paid from the capital contribution reserve, it will be exempt from Swiss withholding tax.

Zurich share performance (indexed) over the last ten years
in %



Source: Thomson Reuters

Dividend/payout history

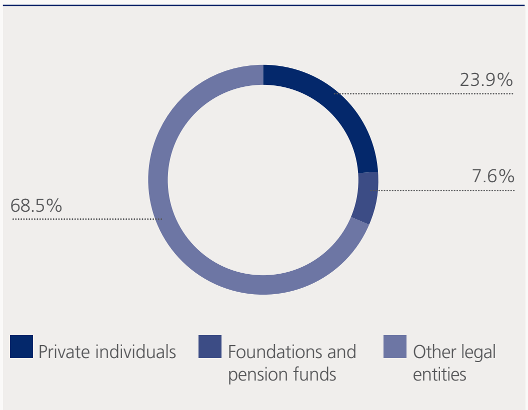
	Financial Year	Gross amount per registered share in CHF	Payment date as from
Dividend	2011	17.00[1]	April 5, 2012[1]
Dividend	2010	17.00	April 7, 2011
Dividend	2009	16.00	April 8, 2010
Dividend	2008	11.00	April 7, 2009
Dividend	2007	15.00	April 8, 2008
Dividend	2006	11.00	April 10, 2007
Dividend/nominal value reduction	2005	7.00	July 4, 2006
Nominal value reduction	2004	4.00	July 4, 2005
Nominal value reduction	2003	2.50	July 1, 2004
Nominal value reduction	2002	1.00	July 15, 2003

[1] Proposed dividend, subject to approval by shareholders at the Annual General Meeting 2012; expected payment date as from April 5, 2012.

Share trading

Zurich Financial Services Ltd shares are listed on the SIX Swiss Exchange and traded on the SIX Swiss Exchange Blue Chip Segment; ticker symbol: ZURN; the Swiss security number (Valorennummer) is 1107539. Trading in Zurich Financial Services Ltd shares on the Blue Chip Segment is conducted in Swiss francs.

Zurich Financial Services Ltd shareholders registered in the share ledger



The shares registered in the share ledger as of December 31, 2011 were owned by 124’920 shareholders of which 119’021 were private individuals holding 23.9% of the shares (or 14.9% of all outstanding shares), 2’051 were foundations and pension funds holding 7.6% of the shares (or 4.7% of all outstanding shares), and 3’848 were other legal entities holding 68.5% of the shares (or 42.6% of all outstanding shares).

Significant shareholders

As of December 31, 2011 Zurich Financial Services Ltd is not aware of any person or institution, other than BlackRock, Inc., New York, Norges Bank, Oslo and Aberdeen Asset Management PLC, Aberdeen, which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Financial Services Ltd representing three percent or more of its issued shares. The related announcements of these notifications can be found via the search facility on the SIX Disclosure Office’s platform: http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

Zurch Financial Services Ltd is not aware of any person or institution which, as of December 31, 2011, directly or indirectly, alone or with others, exercised or was a party to any arrangements to exercise control over Zurich Financial Services Ltd.

Securities custody service

Zurich offers its shareholders the opportunity to deposit Zurich Financial Services Ltd registered shares free of charge at SIX SAG Ltd in Switzerland. The securities deposit regulations as well as the application form for a securities custody account can be downloaded from our website: www.zurich.com/investors/shareholderinformation

Shareholder information *continued*

Financial calendar

Annual General Meeting 2012
March 29, 2012

Ex-dividend date
April 2, 2012

Dividend – record date
April 4, 2012

Dividend payable as from
April 5, 2012

Results Reporting for the Three Months to March 31, 2012
May 10, 2012

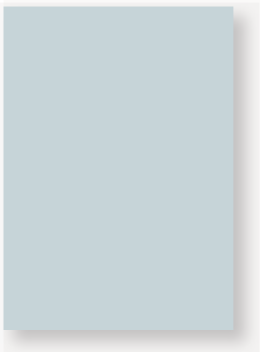
Half Year Results Reporting 2012
August 16, 2012

Results Reporting for the Nine Months to September 30, 2012
November 15, 2012

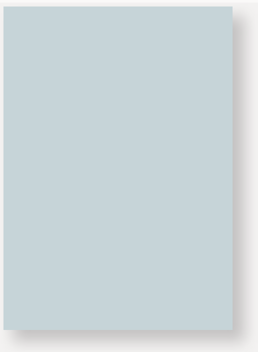
Investors' Day
November 29, 2012

Publications

Annual Review 2011
The Annual Review contains information about Zurich's businesses, its strategy and its performance over 2011. It is available in German, French and English.



Annual Report 2011
The Annual Report contains detailed information about Zurich's financial performance, its structure, executive bodies, risk management, corporate governance and remuneration. It is available in German, French and English, with the complete financials in English only.



www.zurich.com
Downloadable pdfs of both reports are available on www.zurich.com, as well as practical information on managing risk in our Insight section: www.zurich.com/insight.

Contact information

For more information please contact the appropriate office below, or visit our website at www.zurich.com

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American Depositary Receipts
Zurich Financial Services Ltd has an American Depositary Receipt program with The Bank of New York Mellon (BNY).
For information relating to an ADR account, please contact BNY Mellon's Shareowner Services in the USA on 1-888-BNY-ADRS (toll free) (1-888-269-2377) or outside the USA on +1 201 680 6825 or by email to shrrelations@bnymellon.com.
General information on the company's ADR-program can be obtained from The Bank of New York Mellon at www.adrbnymellon.com

Glossary

Group

Book value per share
This measure is calculated by dividing common shareholders' equity by the number of shares issued less the number of treasury shares.

Business operating profit (BOP)
is a measure that is the basis on which the Group manages all its business units. It indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains on investments and impairments (except for the capital markets and banking operations included in Non-Core Businesses and investments in hedge funds and certain securities held for specific economic hedging purposes), policyholders' share of investment results for the life businesses, non-operational foreign exchange movements, and significant items arising from special circumstances, including restructuring charges for litigation outside the ordinary course of business and gains and losses on divestments of businesses. Business operating profit before interest, depreciation and amortization (BOPBIDA) is BOP before interest expense on debt, depreciation of property and equipment and amortization and impairment of goodwill and other intangibles, but inlcuding amortization of DAC and DOC. Adjusted business operating profit is adjusted for notional investment income on the difference between the average actual International Financial Reporting Standards (IFRS) equity and the average allocated IFRS equity using one global swap rate. Allocated IFRS equity is equal to a segment's pro rata share of the Group's total IFRS equity allocated based on the segment's proportion of the Group's risk-based capital (RBC) at the respective period end.

Business operating profit (after-tax) return on common shareholders' equity
indicates the level of business operating profit or loss relative to resources provided by common shareholders. It is calculated as business operating profit or loss, annualized on a linear basis and adjusted for preferred shareholder dividends and taxes, divided by the average value of common shareholders' equity on a simple basis using the value at the beginning and end of the period.

Investments
Total investments in the consolidated balance sheets includes Group investments and investments for unit-linked products. Group investments are those for which the Group bears part or all of the investment risk. They also include investments related to investment policies with discretionary participation features. Average invested assets exclude cash collateral received for securities lending. The Group manages its diversified investments portfolio to optimize benefits for both shareholders and policyholders while ensuring compliance with local regulatory and business requirements under the guidance of our Asset/Liability Management and Investment Committee.

Investments for unit-linked products
include such investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked insurance contracts. They are managed in accordance with the investment objectives of each unit-linked fund. The investment result for unit-linked products is passed to policyholders through a charge to policyholder dividends and participation in profits.

Return on common shareholders' equity (ROE)
is a measure that indicates the level of profit or loss relative to resources provided by common shareholders. It is calculated as net income after taxes attributable to common shareholders, annualized on a linear basis, divided by the average value of common shareholders' equity on a simple basis using the value at the beginning and end of the period.

General Insurance

The following General Insurance measures are net of reinsurance.

Net underwriting result
is calculated as the difference between earned premiums and policy fees and the sum of insurance benefits and losses and net technical expenses.

Total net technical expenses
includes underwriting and policy acquisition costs, as well as the technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, and other income.

Combined ratio
is a performance measure that indicates the level of claims and net technical expenses during the period relative to earned premiums and policy fees. It is calculated as earned premiums and policy fees minus the net underwriting result, divided by net earned premiums and policy fees.

Loss ratio
is a performance measure that indicates the level of claims during the period relative to earned premiums and policy fees. It is calculated as insurance benefits and losses, which include paid claims, claims incurred but not reported (IBNR) and claims handling costs, divided by earned premiums and policy fees.

Expense ratio
is a performance measure that indicates the level of technical expenses during the period relative to earned premiums and policy fees. It is calculated as the sum of net technical expenses and policyholder dividends and participation in profits, divided by earned premiums and policy fees.

Net non-technical result
includes the non-technical elements of administrative and other operating expenses, amortization of intangible assets, interest credited to policyholders and other interest, other income, as well as net gains and losses on divestments of businesses and interest expense on debt.

Global Life

Embedded value (EV) principles
is a methodology using a "bottom-up" market consistent approach, which explicitly allows for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets. A liquidity premium which increases risk discount rates has been applied to certain lines of business consistent with the CFO Forum principles. Options and guarantees are valued using market consistent models calibrated to observable market prices.

Insurance deposits
are deposits, similar to customer account balances, not recorded as revenues. However, the fees charged on insurance deposits are recorded as revenue within the gross written premiums and policy fees line item within the consolidated income statement. These deposits arise from investment contracts and insurance contracts that are accounted for under deposit accounting. They represent the pure savings part, which is invested.

New business annual premium equivalent (APE)
is calculated as new business annual premiums plus 10 percent of single premiums. Present value of new business premiums (PVNBP) is calculated as the value of new business premiums discounted at the risk-free rate.

New business value, after tax
is a measure that reflects the value added by new business written during the period, including allowing for frictional costs, time value of options and guarantees, and the cost of non-market risk, and is valued at the point of sale. It is calculated as the present value of the projected after-tax profit from life insurance contracts sold during the period.

Farmers

Farmers provides through Farmers Group, Inc. and its subsidiaries (FGI) non-claims related management services to the Farmers Exchanges. FGI receives fee income for the provision of services to the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. This segment also comprises the Farmers Re business which includes all reinsurance assumed from the Farmers Exchanges by the Group. The Farmers Exchanges are prominent writers of personal lines and small commercial lines business in the United States.

Gross management result
is a performance measure of Farmers Management Services calculated as management fees and other related revenues minus management and other related expenses, which include amortization and impairments of intangible assets of the Farmers Management Services.

Managed gross earned premium margin
is a performance measure calculated as gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. a wholly owned subsidiary of the Group.

Surplus ratio (Farmers Exchanges)
is a measure that indicates the amount of capital available to support the volume of insurance business written, and is calculated by dividing the end-of-period surplus balance by the net premium written in the preceding twelve-month period.

Disclaimer & Cautionary Statement

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Our cover

Cosimina Donnaianna will be celebrating twenty years of working for Zurich this year, which began when she did an apprenticeship with us in 1992. Today Cosimina is a property and liability claims inspector based in Bern, Switzerland. Among her many experiences over the years she witnessed first-hand the enormous damage that natural disasters can cause after severe storms passed through the Bernese Alps in 2005. The experience intensified her commitment to being a caring, reliable professional, and to doing what she does best – helping customers understand and protect themselves from risk.

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