Zurich Insurance Group

Annual Report 2012

About Zurich

Zurich is a leading multi-line insurance provider with a global network of subsidiaries and offices. With about 60,000 employees, we deliver a wide range of general insurance and life insurance products and services for individuals, small businesses, and mid-sized and large companies, including multinational corporations, in more than 170 countries.

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Our cover
Street scene in São Paulo, Brazil, where Zurich is helping to meet demand for insurance from a growing middle class and thriving business sector.

For more information about Zurich, please visit:

www.zurich.com

Performance overview

Financial highlights (unaudited)

in USD millions, for the years ended December 31, unless otherwise stated	2012	2011[1]	Change[2]
Business operating profit	**4,075**	4,243	(4%)
Net income attributable to shareholders	**3,878**	3,750	3%
General Insurance gross written premiums and policy fees	**35,610**	34,572	3%
Global Life gross written premiums, policy fees and insurance deposits	**30,259**	27,711	9%
Farmers Management Services management fees and other related revenues	**2,846**	2,767	3%
Farmers Re gross written premiums and policy fees	**4,361**	3,529	24%
General Insurance business operating profit	**2,097**	2,247	(7%)
General Insurance combined ratio	**98.4%**	98.9%	0.5 pts
Global Life business operating profit	**1,338**	1,353	(1%)
Global Life new business annual premium equivalent (APE)	**4,030**[3]	3,992	1%
Global Life new business margin, after tax (as % of APE)	**22.1%**[3]	24.5%	(2.5 pts)
Global Life new business value, after tax	**890**[3]	980	(9%)
Farmers business operating profit	**1,414**	1,486	(5%)
Farmers Management Services gross management result	**1,378**	1,333	3%
Farmers Management Services managed gross earned premium margin	**7.3%**[4]	7.3%	–
Average Group investments	**203,192**	196,788	3%
Net investment result on Group investments	**8,911**	9,367	(5%)
Net investment return on Group investments[5]	**4.4%**	4.8%	(0.4 pts)
Total return on Group investments[5]	**7.0%**	5.3%	1.7 pts
Shareholders' equity	**34,494**	31,484	10%
Swiss Solvency Test capitalization ratio[6]	**178%**	183%	(5 pts)
Diluted earnings per share (in CHF)	**24.66**	22.52	10%
Book value per share (in CHF)	**214.79**	202.17	6%
Return on common shareholders' equity (ROE)	**11.8%**	11.9%	(0.2 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	**9.3%**	10.2%	(0.9 pts)

[1] December 31, 2011 has been restated as set out in note 1 of the Consolidated financial statements.
[2] Parentheses around numbers represent an adverse variance.
[3] Does not include any contribution from the insurance businesses acquired from Banco Santander S.A. (Zurich Santander) or from the acquisition of Zurich Insurance Malaysia Berhad (ZIMB).
[4] Calculated based on gross earned premiums of the Farmers Exchanges of USD 18.8 billion, which excludes the return of USD 74 million in premiums as a result of the anticipated settlement of a lawsuit with the State of Texas.
[5] Calculated on average Group investments.
[6] Ratios as of July 1, 2012 and January 1, 2012, respectively, are calculated based on the Group's internal model which is subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The SST Ratio for January 1, 2012 has been restated following FINMA's review of the Annual SST Report.

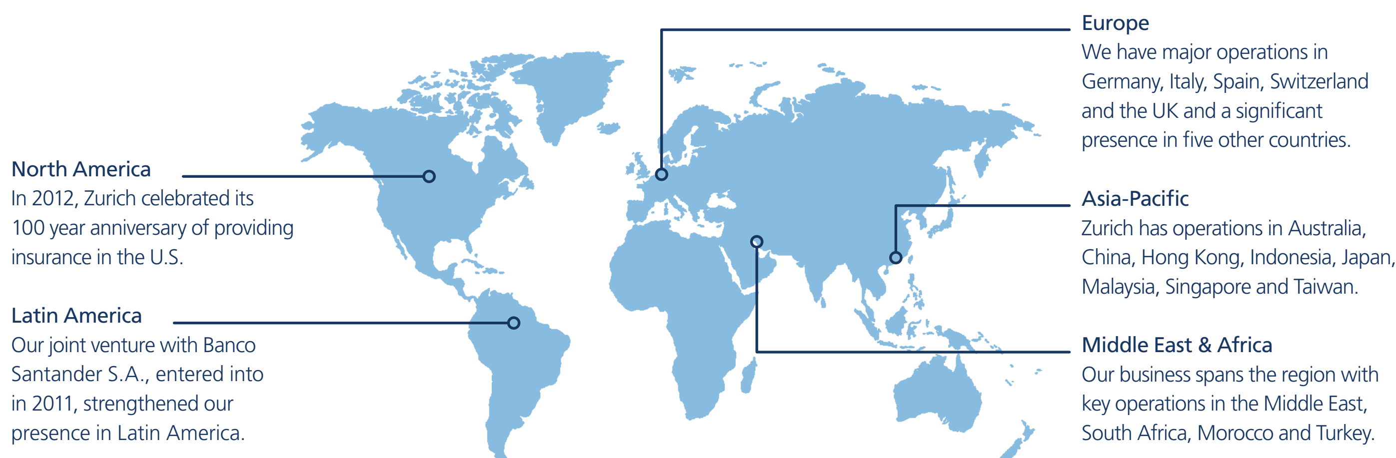
Operational highlights

- Zurich Santander and Zurich Insurance Malaysia Berhad contributed to Global Life and General Insurance premium growth
- The Group expanded bank distribution agreements through alliances in the Middle East, Italy, Spain and Indonesia
- The Farmers Exchanges[1] continue their eastward expansion in the U.S. and strengthen their network of exclusive agents

[1] All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors.

Zurich at a glance

We take a global approach to our 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 allow us to get the most from our strengths.



Our business segments

General Insurance

Business: Property and casualty insurance and services
Market segments: Individual, commercial and corporate customers
Distribution channels: Agents, banks, brokers, direct
Geography: Global

USD 2,097 m
Business operating profit

USD 35,610 m
Gross written premiums and policy fees

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

USD 1,338 m
Business operating profit

USD 30,259 m
Gross written premiums, policy fees and insurance deposits

Farmers

Business: Management services related to property and casualty insurance
Market segments of the Farmers Exchanges[1]: Individual and commercial customers
Distribution channels of the Farmers Exchanges[1]: Agents, direct
Geography: United States

[1] All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors.

USD 1,414 m
Business operating profit

USD 2,846 m
Management fees and other related revenues

Highlights

USD 4.1 bn
Business operating profit
(December 31, 2012)

178 %
Swiss Solvency Test capitalization ratio
(July 1, 2012)

USD 34.5 bn
Shareholders' equity
(December 31, 2012)

Group strategy

Zurich is a profitable, well capitalized and resilient global insurance provider. Our success is built on the dedication of our people and a combination of financial and underwriting discipline, customer centricity and operational excellence. But to maintain our momentum in an increasingly volatile economic and social environment, we must do more.

Our Group strategy is designed to deliver profitable growth by leveraging the strength of our global business, making the best use of our resources and building our reputation as a trusted brand. This strategy is based on three simple concepts: 'who we are, what we do and how we do it'.

More about our Group strategy: see pages 8–9 of this Annual Report.

Our strategy

Who we are

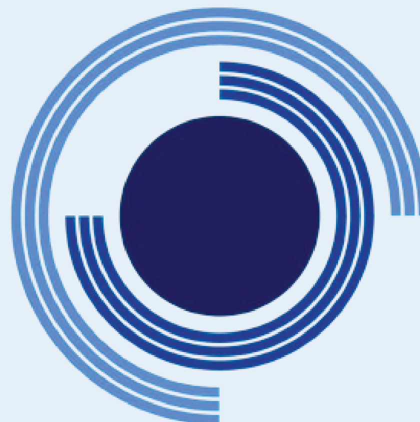
The Zurich Story
We are Zurich, one global company, with one mission, one ambition, one set of shared values and a clearly articulated commitment to our stakeholders: our customers, our people, our shareholders, and the communities in which we live and work.

What we do

Business Portfolio
Build a profitable portfolio for the long term.

Customers and Intermediaries
Become more customer-driven.

Products and Services
Excel in products and services.



How we do it

People Management
Attract, retain and develop the best people.

The Zurich Way
Create a competitive edge by sharing best practices.

Processes and Systems
Simplify and improve our processes and systems.

60,000
Employees (approximately)
(December 31, 2012)

170+
Countries
(December 31, 2012)

AA–/stable
Standard & Poor's financial strength rating of Zurich Insurance Company Ltd
(December 31, 2012)

Message from the Chairman and CEO

Dr. Josef Ackermann and Martin Senn

Dear Shareholder,

We are pleased to present our financial results for the full year 2012, which demonstrate strong underlying profitability driven by our focus on pricing discipline and portfolio management. Our proposed dividend of CHF 17.00 reflects the confidence we have in our business strategy as well as our strong cash generation capabilities and capital base.

Business operating profit for the period was USD 4.1 billion, down 4 percent compared with 2011. Net income attributable to shareholders for the full year was USD 3.9 billion, up 3 percent compared with the previous year. Business operating profit after tax return on common shareholders' equity was 9.3 percent, down from 10.2 percent in 2011.

We are able to report solid profitability in 2012 despite a challenging market environment, the occurrence of Storm Sandy and a disappointing result in our German General Insurance business. We continue to execute our proven strategy, with a disciplined approach to growing our business in emerging markets while delivering a resilient performance in mature markets.

During 2012, we continued to expand our bank distribution agreements, through alliances in the Middle East, Italy, Spain and Indonesia. We are particularly pleased with the performance in the U.S. where we celebrated 100 years of doing business in 2012, and with the successful integration of our acquired insurance businesses in high-potential growth markets in Latin America and Malaysia.

The Group has also restated its accounts for 2010 and 2011 in accordance with International Financial Reporting Standards (IFRS) for a portion of the previously announced financial adjustments in the German General Insurance business, as it was determined in the review initiated in 2012 that improper case reserving practices had resulted in errors. Additionally, the Group determined that deferred policy acquisition costs were overstated due to a system error in Germany. In aggregate those errors were deemed material and have resulted in a restatement that has increased the previously reported third quarter 2012 business operating profit by USD 264 million and net income attributable to shareholders by USD 194 million, reallocating these errors to the respective prior periods. Shareholders' equity at the end of 2012 is unaffected, while shareholders' equity at the end of 2011 was reduced by USD 196 million. With these changes, the results are presented on a more comparable basis.

General Insurance: Strong revenue growth and underlying profits

General Insurance business operating profit decreased by USD 150 million to USD 2.1 billion in 2012. However, underlying profits and revenue growth were strong.

This reflects General Insurance's sustained focus on underwriting discipline and expense management, and is evident in the improvement in the underlying loss ratio of 2.9 percentage points to 61.4 percent.

The overall performance was adversely affected by a second consecutive year of above average catastrophe and weather-related losses, including Storm Sandy, as well as the previously announced financial adjustments in Germany. As a result of the review of the German General Insurance business, the Group further strengthened its claims provisions in the fourth quarter by approximately USD 60 million for the lines impacted in the previous quarter and by approximately USD 70 million for other business lines. The German General Insurance segment has now reverted to business as usual where the risk of adverse development should be balanced by the possibility of favorable development.

General Insurance gross written premiums and policy fees increased by USD 1 billion to USD 35.6 billion in 2012. The segment achieved average rate increases of 4 percent, mirroring our strategic focus on selective, profitable growth, while continuing a disciplined approach to underwriting. Overall premium growth was strong, especially in International Markets through both organic growth and acquisitions, as well as in North America, while European results continue to be affected by lower levels of economic activity, particularly in some of the larger markets such as the UK, Spain and Italy.

Global Life: Continued progress against strategic objectives

Global Life maintained profitability levels while continuing to show growth in gross written premiums, policy fees and insurance deposits.

Global Life business operating profit remained broadly flat at USD 1.3 billion, with a positive contribution from the insurance businesses acquired from Banco Santander S.A. (Zurich Santander) of USD 105 million, largely offset by a lower contribution from special operating items.

Global Life gross written premiums, policy fees and insurance deposits increased by USD 2.5 billion to USD 30.3 billion as a result of the inclusion of Zurich Santander.

New business value after tax, including Zurich Santander and Zurich Insurance Malaysia Berhad, increased by 11 percent to USD 1.1 billion. Zurich Santander and Zurich Insurance Malaysia Berhad contributed USD 195 million, while new business value after tax, excluding these recent acquisitions, declined by USD 90 million to USD 890 million. The strategy of diversifying geographically into target markets and diversifying product mix into protection and fee-based offerings is offsetting the volume and margin pressures being experienced in Europe.

Farmers: Consistent profit generation

Farmers business operating profit decreased by USD 72 million to USD 1.4 billion or by 5 percent, primarily due to a net underwriting loss incurred by Farmers Re.

Farmers Management Services business operating profit increased by USD 71 million to USD 1.4 billion or by 5 percent, primarily driven by the increase in gross earned premiums 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 deteriorated by USD 142 million to a loss of USD 26 million, primarily due to the absence of favorable development of reserves established in prior years, which benefited Farmers Re during 2011.

Farmers Management Services management fees and other related revenues increased by USD 79 million to USD 2.8 billion or by 3 percent, which was driven by the 3 percent increase in gross earned premiums in the Farmers Exchanges. The 24 percent increase to USD 4.4 billion in gross written premiums at Farmers Re was mainly as a result of changes in the All Lines agreement from 2011 levels as well as the 3 percent gross written premiums growth in the Farmers Exchanges.

Strength and commitment to pay sustainable and attractive dividends

Zurich continues to generate strong underlying profitability. We have increased our revenues by defending our position in mature markets and diversifying into target emerging markets. Our investment performance was strong, delivering a total return of 7 percent in 2012.

We were able to deliver these solid financial results in 2012 despite economic uncertainty around the world. We are proud to have talented employees who work hard each and every day to help our customers understand and protect themselves from risk; we are thankful to our customers and recognize that we have to earn their trust by delivering excellent products and services that meet their needs; and we are grateful for the support of our shareholders, who recognize that Zurich strives to provide stable and sustainable returns in a challenging environment.

Dr. Josef Ackermann
Chairman of the Board of Directors

Martin Senn
Chief Executive Officer

Market environment

As a global insurer with a presence in over 170 countries, Zurich takes an active approach to regulatory, economic and operational matters.

Zurich is engaged at all levels of the organization in response to the regulatory, economic and operational challenges it faces. It continues to have a dialogue with policy makers, supervisors, standard setters and regulators. Zurich is confident that it will successfully navigate these challenges in the best interests of its stakeholders.

Regulatory challenges

Worldwide, public policy issues are prompting reactions from both global and national insurance regulators. Zurich takes a constructive approach by working closely with regulators to develop stronger policy frameworks. The most significant current initiatives from governments and supervisory bodies are responses to the consequences of the financial crisis and include:

Potential designation as a global systemically important insurer (G-SII)

Several financial conglomerates at the heart of the financial system became casualties of the global economic crisis due to excess debt ratios and weak risk management functions. In response to the systemic risk posed by failures of large interconnected firms, regulators are framing policies designed to avoid a similar situation.

"The most significant current initiatives from governments and supervisory bodies are responses to the consequences of the financial crisis."

The International Association of Insurance Supervisors is participating in a global initiative to identify potential G-SIIs, whose distress or disorderly failure, because of their size, complexity and interconnectedness, would cause significant disruption to the global financial system and economic activity.

If a company is designated as a G-SII this may lead to additional financial and regulatory requirements. Organizations that fall into the G-SII category could be required to increase capital to absorb potential losses and to submit formal recovery and resolution plans. Further, they would also have to present a proposal on how they would reduce their systemic risk.

National budget deficits driving protectionist laws

High national budget deficits in some countries are beginning to drive measures that affect foreign market participants more than local participants. Examples of these include Argentinian investment and Brazilian reinsurance regulations.

The 2012–2020 Insurance Plan announced by the Argentinian Ministry of the Economy stipulates that insurers doing business in Argentina must allocate up to 30 percent of their investment portfolios to instruments financing productive and long-term projects in Argentina. In Brazil, a regulation issued in 2011 requires that 40 percent of each reinsurance placement is placed with a local reinsurer and restricts cessions to foreign affiliates to 20 percent on each placement.

Consumer protection laws impose stricter regulations

Since the financial crisis began in 2008 there has been a new thrust towards enhanced consumer protection and regulation of distribution. These are a consequence to some extent of adverse experiences that arose during the crisis, where policy holders were sold supposedly safe products that led to losses from individual pensions and other savings products.

The impact has been reinforced by the new supervisory architecture that is being implemented in several countries, for example in the UK and Italy. In these countries, prudential insurance supervision is being centralized at their central banks and a special agency for consumer protection has been created. These agencies are not required to take into account prudential or solvency considerations in relation to the cost that additional protection measures may impose.

Tensions between global and local regulatory measures

Global and local insurance regulators have different objectives. In general, global supervisors consider the status of insurance organizations in terms of broad financial impacts, while local bodies look solely at legal entities in their jurisdiction, focusing on narrower governance, compliance and solvency considerations. This has the potential to create tensions between Zurich's central management organizational goals and local legal entity requirements. For example, resource allocation decisions could be distorted where limits are placed on the free movement of capital.

Economic and market outlook

The global macroeconomic environment in 2013 offers brighter prospects than in 2012 although downside risks clearly remain. The outlook is expected to improve as political uncertainty subsides and governments turn their focus towards growth rather than austerity. Growth is expected to be higher than in 2012, but below trend as consumers and financial institutions continue to reduce spending and borrowing.

Policy makers have begun to take a more pragmatic approach to current economic problems, and this pattern is likely to continue. In the EU, fears of a Greek exit from the monetary union and Spanish borrowing pressures subsided following the employment of cyclically-adjusted targets instead of the imposition of rigid goals. Likewise, progress has been made with the U.S. fiscal deficit issue following compromises between Republicans and Democrats. This tendency towards resolution has begun to instill confidence in investors and foster a degree of normalization in markets.

This gradual process of economic improvement should support the environment for risk assets as investors regain confidence and return to capital markets. Equity, credit and peripheral sovereign bonds are the most likely beneficiaries while core sovereign bonds and traditional safe-haven assets are most likely to see outflows. Inflation is likely to remain contained as banks continue to apply higher credit standards before lending. Furthermore, unemployment remains high so wage pressures are not likely to be a problem.

Although the economic environment is gradually improving, Zurich remains vigilant to potential risks that could affect the proper functioning of capital markets and is prepared for scenarios as diverse as liquidity constraints, foreign currency exposures and related contagion effects.

"The outlook is expected to improve as political uncertainty subsides and governments turn their focus towards growth rather than austerity."

Security and cyber risk

A digitally connected society presents new and evolving dangers to all organizations; threats from information technology infrastructure attacks and cyber-crime pose a constant threat with material consequences.

Board members and executive management are increasingly recognizing the risks of a wide range of exposures such as lost or stolen data, violation of privacy laws, intellectual property infringement, social media, mobile devices and cloud computing. Not only do violations of data security present reputational dangers for insurers, but also potential sanctions from regulators.

Although the strategies for addressing these risks vary, more and more organizations are adopting an enterprise-wide – or at least a multi-departmental – approach to information security and cyber liability risk management. Increasingly, insurance is also becoming a part of more organizations' cyber risk management strategies.

Data protection is paramount for Zurich. Although complete data security can never be assured, we have made significant capital investments in robust IT architecture solutions to help prevent potential breaches and maintain system infrastructure using high standards of IT security.

Our strategy

Our Group strategy is designed to deliver profitable growth by leveraging the strength of our global business.

Zurich's Group strategy framework – set out below – is a new articulation of the strategic principles that Zurich has pursued for many years. It clarifies our strategic direction for all our stakeholders and ensures that within the organization, we are all aligned around a common purpose. This new strategic framework is based on three simple concepts: 'Who we are, what we do and how we do it'.

Who we are

Zurich is a leading multi-line insurance provider with a global network of subsidiaries and offices. With about 60,000 employees, we deliver a wide range of general insurance and life insurance products and services for individuals, small businesses, and mid-sized and large companies, including multinational corporations, in more than 170 countries.

Our Mission is to help our customers understand and protect themselves from risk. Our Ambition is to be the best global insurer as measured by our customers, employees and shareholders. Our Values, as defined by our code of conduct, Zurich Basics, shape our culture and define our behaviors. They are: integrity, customer centricity, excellence, sustainable value creation and teamwork.

What we do

We want to become a more customer-driven organization. That means we must focus on specific markets and customer segments, create competitive propositions and provide a superior experience for our customers.

Building a profitable portfolio for the long term

We aim:
- to grow our business organically where we can do so profitably;
- to make use of our capital strength in order to grow through selective acquisitions, joint-ventures and alliances in mature markets, and accessible high-potential growth markets.

To do this we are enhancing in-house capabilities that will enable us to identify and capture new opportunities as they arise.

Becoming more customer-driven

We aim:
- to create more value from our existing portfolio by expanding the opportunities for cross-selling and by increasing customer loyalty;
- to win new business by improving our visibility and attractiveness to customers.

In order to reach this goal, we are upgrading our service infrastructure and adopting tools and techniques that will give us more insight into our customers' needs.

Excelling in products and service

We aim:
- to expand our product and service offerings;
- to identify profitable opportunities within the industry and to redefine the value chain.

This will involve taking a more customer-centric approach to product development and tailoring our offering to the individual stages of our customers' lives.

How we do it

We know what it takes to achieve our goals. We need the best and most skilled people in the industry and a culture that enables them to perform at their best. We need to develop and leverage best practices and provide support for Zurich's transformation into a more customer-driven organization.

Attracting, retaining and developing the best people

We aim:
- to develop industry leading people management capabilities in order to attract, retain and develop the best people in our industry;
- to foster a culture of excellence in which all employees are challenged, motivated and proud to be part of Zurich.

We will progress towards these goals by introducing a global approach to people management and talent acquisition while improving workplace diversity and career development.

Simplifying and improving our processes and systems

We aim:
- to upgrade or reinvent our processes and systems in order to reduce complexity and satisfy changing customer expectations effectively;
- to enhance our technical capabilities continuously and establish value-adding shared services to support new business initiatives.

Our next generation operating landscape will recognize distinct customer needs while leveraging global scale.

Creating a competitive edge by enhancing our global capabilities

We aim:
- to leverage The Zurich Way (TZW) in its original intention to select, improve and systematically roll out core target capabilities across the Group;
- to create global standards that all our employees can embrace: standards that represent the way we do business at Zurich.

We are developing and piloting global capabilities that will provide uniform work practices across Zurich.

Corporate responsibility: our strategic choice

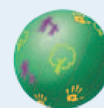
For Zurich, corporate responsibility (CR) is a key ingredient of our strategy. It is about sustainable value creation, one of our core values, as set out in Zurich Basics, our code of conduct. We aim to create sustainable value for each of our main stakeholder groups by proactively addressing relevant environmental, social and governance issues.

Zurich Basics together with our commitment to the United Nations Global Compact are the foundation of our CR strategy. We focus on areas related to our core business so that we can apply our insurance and risk management expertise to enhance our contribution to society. These areas are:

- Enhancing community flood resilience
- Investing our Group assets responsibly
- Working with our corporate customers to help them better understand and manage their CR risks
- Community investment through the Z Zurich Foundation
- Environment, health and safety management in our office buildings
- Diversity and inclusion in our workforce
- Responsible supply chain management

To ensure that we execute on our CR strategy, the Group Executive Committee has formed a CR Working Group to advise it on strategy, priorities and objectives, and to track our performance. Our three business segments and key functions such as Group Operations and Investment Management are represented, to ensure that CR is embedded in our business. The CR Working Group is chaired by a member of the Group Executive Committee, Kevin Hogan, CEO of our Global Life business segment.

For more information on corporate responsibility at Zurich, see our Annual Review 2012, which is available on www.zurich.com, as well as the corporate responsibility section of our website (within 'About us').



Our strategy

Measuring our performance

In addition to our Group strategic aspirations there are targets for each of our three segments.

Group strategic aspirations

Zurich maintains its strategic ambition to achieve a business operating profit after tax return on equity of 16% over the long term. In the current low interest rate environment, a return of around 2 percentage points below this number is more realistic.

Deliver attractive Total Shareholder Return (TSR)

Targets

Segment	Targets
General Insurance	• Improve combined ratio by 3–4 points relative to global competitors by 2013 • 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	• 30% of NBV from Asia-Pacific and Middle East (APME) and Latin America • Top 5 European-based global insurer by New Business Value (NBV) • Cash generative while self-funding organic growth
Farmers	• Maintain top quartile growth performance among the 12 largest U.S. personal lines companies • Continue to increase market share for the Farmers Exchanges • Improve retention by 3 points to close the gap relative to top-tier U.S. personal lines competitors
Group	• Reduce run-rate costs by USD 500m in mature markets at YE 2013 to strengthen our position in growth markets

Performance	Commentary

BOPAT-ROE

9.3% (2011: 10.2%)

- Underlying profitability was sustained by contributions from Global Life and Farmers, as well as the strong underlying underwriting performance in General Insurance.

TSR outperformance since 2008
in %

Zurich in CHF
Zurich in EUR
Zurich in USD
DJ Ins Titans

- Zurich has clearly outperformed the benchmark Global Insurance Titans index in TSR terms since 2008 by approximately 37 percent in Swiss franc terms, or about 60 percent in U.S. dollar or 74 percent in euro terms.

Highlight	Commentary

Combined ratio

98.4% (2011: 98.9%)

- Across the portfolio, the business continued to execute against its strategic targets with an improvement in the underlying loss ratio.

Share of new business value, after tax, in APME and Latin America

25.2% (2011: 21.1%)

- Global Life continued to benefit in 2012 from its investment in organic growth in target markets. Including the Zurich Santander and Zurich Insurance Malaysia Berhad acquisitions the share of NBV would be close to 40%.

Gross written premiums in the Farmers Exchanges

USD 18,935 m (2011: USD 18,297m)

- This increase was driven by continued premium growth in all lines of business primarily as a result of ongoing rate actions undertaken to improve profitability.

Efficiency program expense reduction to date

USD 200 m

- General insurance has delivered the bulk of Group savings so far. Group Operations implemented two of the largest IT outsourcing initiatives in the insurance industy. Restructuring projects in Global Life are expected to become visible in 2013.

Our performance

The execution of the Group's strategy and focus on its core insurance business enabled strong growth and improved underlying profitability.

Zurich delivered solid results and generated strong cash flows while maintaining its strong capital position. This enabled the Board of Directors to propose an attractive dividend of CHF 17.00 per share, demonstrating the Group's sustained commitment to shareholder value.

The execution of the Group's strategy and focus on its core insurance business enabled strong growth and improved underlying profitability, which are critical to offset lower investment income due to the persisting low-yield environment.

The improved underlying profitability was sustained by contributions from Global Life and Farmers, as well as the strong underlying underwriting performance in General Insurance. The overall performance of General Insurance was affected by above-average levels of catastrophe, large and weather-related losses, including Storm Sandy, as well as the adverse impact of the review of our business in Germany.

Business operating profit decreased by USD 169 million or by 4 percent to USD 4.1 billion. Net income attributable to shareholders increased by USD 128 million or 3 percent to USD 3.9 billion.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, increased by USD 4.5 billion or by 7 percent to USD 73.1 billion.

The strategic acquisitions made towards the end of 2011 have now been integrated into the Group, with Zurich Santander contributing USD 5.2 billion to the growth of gross written premiums and insurance deposits and a business operating profit of USD 165 million.

Return on equity (ROE) was 11.8 percent for 2012, compared with 11.9 percent for 2011. This decrease was driven by the increase in shareholders' equity. Business operating profit (after tax) return on equity (BOPAT ROE) of 9.3 percent decreased 0.9 percentage points.

Diluted earnings per share increased by 10 percent to CHF 24.66 for the year ended December 31, 2012, compared with CHF 22.52 in 2011. The increase in diluted earnings per share of 10 percent compared with the increase in net income attributable to shareholders of 3 percent was due to the currency translation impact, as the U.S. dollar was on average stronger against the Swiss franc in 2012 than in 2011.

Group investments increased by USD 11.0 billion or by 6 percent to USD 208.7 billion since December 31, 2011. The Group's asset and liability management strategy remains disciplined and the Group continues to reduce risks which it believes are not rewarded. The quality of the Group's investment portfolio remains high. Investment grade securities continue to comprise 98 percent of the Group's debt securities.

The Group's capital and solvency positions remain strong, underpinned by continued focus on risk management in its disciplined investment and underwriting strategies. Shareholders' equity increased by USD 3.0 billion to USD 34.5 billion since the year ended December 31, 2011, after recording the total cost of USD 2.8 billion for the dividends paid in April 2012.

The Swiss Solvency Test (SST) became fully effective and mandatory as of January 1, 2011. Under SST, the Group is required to use a company-specific internal model to calculate risk-bearing and target capital and to file SST reports half yearly. For July 1, 2012 the Group filed, on a consolidated basis, an SST capitalization ratio of 178 percent, compared with 183 percent as of January 1, 2012 following a review by FINMA. The internal model continues to be subject to approval by FINMA.

General Insurance

General Insurance business operating profit decreased by USD 150 million or by 7 percent to USD 2.1 billion, due to a decline in investment income, partly offset by the improved net underwriting result.

The net underwriting result benefited from an improved underlying loss ratio, which more than compensated for the decrease in favorable development of reserves established in prior years, mainly arising in Germany from an increase in loss reserves for certain long-tail lines of business written in prior years and higher commission expenses, as the mix of business shifts toward products with higher commissions.

General Insurance gross written premiums and policy fees increased by USD 1.0 billion or by 3 percent to USD 35.6 billion, mainly as the result of rate increases.

Selective and profitable growth remains the key focus area and the business continued to capitalize on the favorable rate environment across all regions, achieving average rate increases of 4 percent.

Premiums continued to increase in the mature North American market. While part of this increase was attributable to adjustments to premiums for prior year policies as initial estimated insured risks were increased to reflect actual exposures, there have also been improvements in both customer retention and new business.

In International Markets, Zurich Santander and Zurich Insurance Malaysia Berhad (ZIMB) contributed to the growth in premiums along with organic growth from the existing businesses. In Europe, premium volumes remain under pressure as a result of the economic environment in all significant markets as well as profit improvement efforts in selected portfolios such as personal lines motor.

"The Group's capital and solvency position remains strong, underpinned by continued focus on risk management."

Global Life

Global Life business operating profit remained broadly flat at USD 1.3 billion, with a positive contribution from Zurich Santander of USD 105 million net of non-controlling interests and earn-out charges. This was largely offset by a lower contribution from Europe, mainly as a result of one-off expenses in Germany.

Other sources of profit remained largely flat overall, with improvements in the risk and expense margins benefitting from the continued shift to protection and unit-linked products, offset by reductions in the investment margin due to lower investment yields.

Global Life gross written premiums, policy fees and insurance deposits increased by USD 2.5 billion or by 9 percent to USD 30.3 billion, benefitting from the contribution of Zurich Santander as well as higher volumes of single premium products in Corporate Life & Pensions and Private Client Banking Solutions, partly offset by a reduction in Spain where the product mix continued to shift from savings toward higher-margin protection products.

Farmers

Farmers business operating profit decreased by USD 72 million or by 5 percent to USD 1.4 billion, mainly due to a net underwriting loss incurred by Farmers Re.

Farmers Management Services business operating profit increased by USD 71 million or by 5 percent to USD 1.4 billion, mainly as a result of the increase in gross earned premiums 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 deteriorated by USD 142 million to a loss of USD 26 million, mainly reflecting the absence of favorable development of loss reserves established in prior years compared with 2011, as well as weather-related losses that were once again well above historic levels. This was partly offset by a year-on-year improvement in the underlying loss ratio.

Farmers Management Services management fees and other related revenues increased by USD 79 million or by 3 percent to USD 2.8 billion, driven by the 3 percent increase in gross earned premiums in the Farmers Exchanges.

The 24 percent increase to USD 4.4 billion in gross written premiums of Farmers Re reflected the changes in the All Lines quota share reinsurance agreement with the Farmers Exchanges (All Lines agreement) as well as the increase in gross written premiums in the Farmers Exchanges.

Gross written premiums in the Farmers Exchanges increased by USD 637 million or by 3 percent to USD 18.9 billion. This increase was due to continued premium growth in all lines of business primarily as a result of ongoing rate actions undertaken to improve profitability, which resulted in a small decrease in policies in force.

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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Introduction

The Zurich Insurance Group consisting of Zurich Insurance Group Ltd and its subsidiaries (the 'Group' or 'Zurich') 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 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 following rules:

- Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange (as of October 29, 2008, effective July 1, 2009).

- Swiss Code of Best Practice for Corporate Governance, issued in 2002 by economiesuisse, as amended in October 2007.

- The Group continues to publish a Risk Management and Internal Control Statement (see pages 53 and 54) in accordance with the Internal Control: Revised Guidance to Directors on the UK Corporate Governance Code (formerly known as UK Turnbull Guidance) as of October 2005.

Zurich Insurance Group Ltd is listed on the SIX Swiss Exchange. Certain Group companies have listed debt issued under the Euro Medium Term Note Program and other financial instruments.

The Zurich Insurance 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 decree of December 28, 2011, FINMA stated that Zurich is subject to insurance group supervision according to article 64 et seq. of the Swiss Insurance Supervision Law ("ISL") and no longer qualifies as a conglomerate. Furthermore, the Joint Committee of the European Supervisory Authorities has re-designated the Group from an insurance conglomerate to an insurance group given the small size of its non-insurance activities. The ISL requires Swiss insurance companies and groups to establish and maintain strong governance and risk management systems as well as effective internal control systems that are appropriate to their business activities. It prescribes the calculation of a risk-based solvency margin at Group and legal entity level, pursuant to the Swiss Solvency Test (SST) and also a Solvency I margin (expected to become redundant when Swiss insurance supervision is acknowledged as 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 Group are supervised by relevant local supervisory authorities.

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

An effective structure is in place providing for cooperation between the Board of Directors of Zurich Insurance Group Ltd (Board), Management and internal control functions. This structure establishes checks and balances and is designed to provide for institutional independence of the Board 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 Zurich Insurance Group Ltd is composed entirely of non-executive members independent from the Management. The roles of Chairman of the Board and CEO are separated, thus providing for separation of powers between the functions and ensuring the autonomy of the Board.

This report essentially 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 56 to 81), 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 as amended on June 1, 2012.

Corporate governance report *continued*

Key governance developments in 2012 – at a glance
as of December 31, 2012

Board of Directors	Group Executive Committee	Other
Elections: • Josef Ackermann, former Vice-Chairman, elected as Chairman[1] • Tom de Swaan, former member, elected as Vice-Chairman[1] • Alison Carnwath, elected as a new member[2] • Rafael del Pino, elected as a new member[2] Departures: • Manfred Gentz, former Chairman • Vernon Sankey, member and former Chairman of the Remuneration Committee	New appointments: • Jeff Dailey, CEO Farmers Group, Inc. • Mike Kerner, CEO General Insurance • Yannick Hausmann, Group General Counsel Departures: • Mario Greco, former CEO General Insurance • Christian Orator, former Chief Administrative Officer	• Simplified organizational structure at Head Office: - discontinued role of Chief Administrative Officer (CAO) - integrated specific areas of that office's responsibilities into other functions • Ann Haugh appointed to new position of Chief of Staff

[1]Elected by the Board [2]Elected by the Shareholders' Meeting

Group structure and shareholders

Operational Group structure

Zurich Insurance Group Ltd, the Group's holding company, is a Swiss corporation organized in accordance with the laws of Switzerland. In recent years, Zurich has streamlined its business portfolio to concentrate on insurance. In recognition of this strategic focus, the Board proposed to replace the reference to financial services in the company name by emphasizing the insurance activity of the Group instead. Accordingly, at the Annual General Meeting on March 29, 2012, the Board proposed that the company name be changed to Zurich Insurance Group Ltd. The proposed name was approved by the shareholders.

Operational Group Structure
as of December 31, 2012

The Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both lines of business and geography. The GEC is headed by the CEO. The CEOs of the business segments General Insurance, Global Life and Farmers as well as the Chief Financial Officer (CFO), the Chief Investment Officer (CIO), the Chief Risk Officer (CRO), the Group Head of Operations and the Group General Counsel are members of the GEC. The geographic regions of Europe, North America, Latin America and Asia-Pacific and Middle East including Africa are represented by Regional Chairmen – of which those for Europe, North America and Asia-Pacific and Middle East including Africa are currently members of the GEC – who focus on stakeholder management and business development in their regions. For further information on the GEC see pages 40 to 48.

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. 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 with market-leading propositions in unit-linked, protection and corporate products through global distribution and proposition pillars to develop leadership positions in its chosen markets.

- 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 all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of 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 segments. The other business segments are:

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

At a secondary level, the General Insurance segment is managed based on market-facing businesses, including: Global Corporate, North America Commercial, Europe, Latin America and Asia-Pacific, Middle East and Africa. The Global Life segment is managed on a regionally based structure within a global framework, including: North America, Latin America, Europe and Asia-Pacific and Middle East.

A detailed review of the respective business segment results during 2012 can be found in the Operating and financial review starting on page 84. 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-2012-en.pdf).

A list of the Group's significant subsidiaries, including additional information on significant subsidiaries that are listed, can be found on pages 283 to 285. For further information on the share listing of Zurich Insurance Group Ltd, see the Shareholder Information on pages 348 to 350.

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 if the shareholding subsequently falls below those thresholds. Call options and other financial instruments are added to any share position, 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.

Corporate governance report *continued*

Zurich Insurance Group 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 2012 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, 2012, Zurich Insurance Group Ltd is not aware of any person or institution, other than BlackRock, Inc., New York and Norges Bank, Oslo which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group Ltd representing three percent or more of its issued shares.

The announcements related to 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 Insurance Group Ltd is not aware of any person or institution which, as of December 31, 2012, directly or indirectly, alone or with others, exercised or was a party to any arrangements to exercise control over Zurich Insurance Group Ltd.

Overview on shareholder structure

Number of shares held

as of December 31, 2012	Number of registered shareholders	% of registered share capital
1–500	115,700	13.1
501–1,000	4,750	3.8
1,001–10,000	3,942	10.7
10,001–100,000	376	11.8
100,001+	79	60.6
Total registered shares	124,847	100.0

Registered shareholders by type

as of December 31, 2012	Registered Shareholders in %	Registered Shares in %
Individual shareholders	95.5	24.7
Legal entities	3.8	26.2
Nominees, fiduciaries	0.7	49.1
Total	**100.0**	**100.0**

Registered shareholders by geography

as of December 31, 2012	Registered Shareholders in %	Registered Shares in %
Switzerland	93.3	43.3
UK	1.5	30.0
North America	0.9	11.9
Asia	0.2	1.1
Latin America	0.1	0.1
Rest of the World	4.0	13.6

Cross-shareholdings

Zurich Insurance Group Ltd has no interest in any other company exceeding five percent of the voting rights of that other company, where such other company has an interest in Zurich Insurance Group Ltd exceeding five percent of the voting rights in Zurich Insurance Group Ltd.

Capital structure

Share capital

As of December 31, 2012, the ordinary share capital of Zurich Insurance Group Ltd amounted to CHF 14,830,012.30 divided into 148,300,123 fully paid registered shares with a nominal value of CHF 0.10 each. The Board will propose to the shareholders at the Annual General Meeting on April 4, 2013 a dividend of CHF 17.00 per share. As the dividend payment is planned from the capital contribution reserve, it will be exempt from Swiss withholding tax.

Authorized and contingent share capital

As of December 31, 2012, as specified in Article $5^{bis}(1)$ of the articles of incorporation, the Board of Zurich Insurance Group 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 29, 2014. The contingent share capital of Zurich Insurance Group Ltd, as specified in Article $5^{ter}(1a)$ 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 Insurance Group 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 CHF299,513.60 as specified in Article $5^{ter}(2a)$ of the articles of incorporation, representing 2,995,136 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 audited Consolidated financial statements, note 22 on pages 237 and 238.

Changes of share capital during 2012

During 2012, a total of 914,301 shares were issued to employees out of contingent capital. As a result, on December 31, 2012, the share capital amounted to CHF 14,830,012.30 (148,300,123 shares) and both the authorized capital and the contingent share capital (as specified in Article $5^{bis}(1)$ and in Article $5^{ter}(1a)$ 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 $5^{ter}(2a)$ of the articles of incorporation) amounted to CHF 299,513.60 (2,995,136 shares).

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 $5^{bis}(1)$ and in Article $5^{ter}(1a)$ 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 $5^{ter}(2a)$ of the articles of incorporation) amounted to CHF 390,943.70 (3,909,437 shares).

Corporate governance report *continued*

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, 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
Newly issued shares from contingent capital	91,430.10	914,301	0.10
As of December 31, 2012	14,830,012.30	148,300,123	0.10

For information on changes of share capital during 2010, see the Annual Report 2011 of Zurich Insurance Group, pages 26 to 27, pages 160 to 161 and pages 227 to 228.

Shares and participation certificates

Zurich Insurance Group 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, 2012, investors held 24,376,020 ADRs (representing 2,437,602 Zurich Insurance Group Ltd shares).

Profit sharing certificates

Zurich Insurance Group 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 Insurance Group 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 Corporation in connection with the Zurich Insurance Group Ltd ADR program.

Convertible bonds and options

Zurich Insurance Group Ltd had no public convertibles or options outstanding as of December 31, 2012. For information on employee share option plans, see the audited Consolidated financial statements, note 24 on pages 245 to 247.

[1] Zurich Insurance Group 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 Corporation issues the ADSs. Each ADS represents the right to receive one-tenth of one share of Zurich Insurance Group Ltd. Each ADS also represents securities, cash or other property deposited with The Bank of New York Mellon Corporation 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 ZURVY. ADS holders are not treated as shareholders of Zurich Insurance Group Ltd and are not able to directly enforce or exercise shareholder rights. Only The Bank of New York Mellon Corporation as Depositary of the level 1 program may exercise voting rights with respect to instructions received from beneficial owners of ADRs.

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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 and the Group Executive Committee.

1 Josef Ackermann
Chairman of the Board,
Chairperson of the Governance and Nominations Committee,
Member of the Remuneration Committee

2 Tom de Swaan
Vice-Chairman of the Board,
Chairperson of the Risk Committee,
Member of the Governance and Nominations Committee

3 Susan Bies
Director,
Member of the Audit Committee,
Member of the Risk Committee

4 Alison Carnwath
Director,
Member of the Remuneration Committee

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

6 Rafael del Pino
Director,
Member of the Remuneration Committee

7 Thomas K. Escher
Director,
Chairperson of the Remuneration Committee

8 Fred Kindle
Director,
Member of the Audit Committee

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

10 Don Nicolaisen
Director,
Chairperson of the Audit Committee,
Member of the Risk Committee

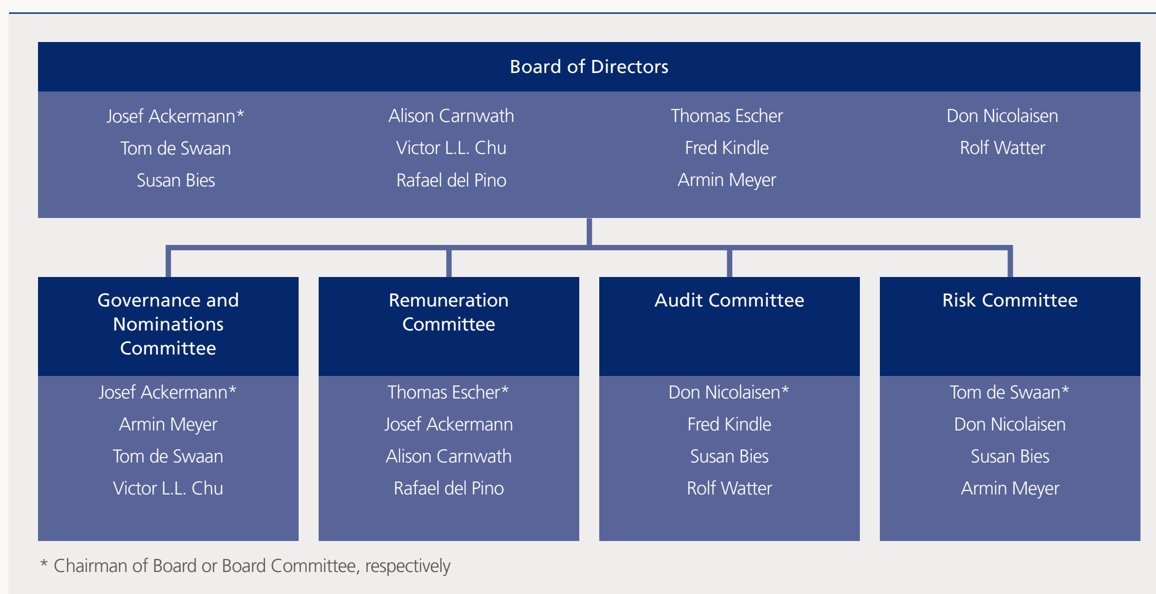
11 Rolf Watter
Director,
Member of the Audit Committee

Board of Directors

The Board, under the leadership of the Chairman, is responsible for determining the overall strategy of the Group and the supervision of senior management. It holds the ultimate decision-making authority for Zurich Insurance Group Ltd, except for those decisions reserved to the shareholders.

Board of Directors and its Committees

as of December 31, 2012



* Chairman of Board or Board Committee, respectively

The members of the Board are elected by the shareholders at the shareholders' meeting. After each shareholders' meeting, the Board constitutes itself in its first meeting and appoints a Chairman and a Vice-Chairman from among its members. All current members are non-executive directors, independent from the Management.

Corporate governance report *continued*

Members of the Board of Directors, as of December 31, 2012

Name	Nationality	Year of Birth	Position held	Year of initial appointment	Expiration of current term of office
Josef Ackermann	Swiss	1948	Chairman of the Board Chairperson of the Governance and Nominations Committee Member of the Remuneration Committee	2010	2015
Tom de Swaan	Dutch	1946	Vice-Chairman of the Board Chairperson of the Risk Committee Member of the Governance and Nominations Committee	2006	2014
Susan Bies	American	1947	Director Member of the Audit Committee Member of the Risk Committee	2008	2013
Alison Carnwath	British	1953	Director Member of the Remuneration Committee	2012	2014
Victor L.L. Chu	British	1957	Director Member of the Governance and Nominations Committee	2008	2013
Rafael del Pino	Spanish	1958	Director Member of the Remuneration Committee	2012	2014
Thomas Escher	Swiss	1949	Director Chairperson of the Remuneration Committee	2004	2015
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 Chairperson of the Audit Committee Member of the Risk Committee	2006	2015
Rolf Watter	Swiss	1958	Director Member of the Audit Committee	2002	2013

Except for Ms. Carnwath and Mr. del Pino whose terms of office commenced in March 2012, all of the current Directors served on the Board throughout 2012. Mr. Gentz, the former Chairman of Zurich Insurance Group Ltd and Mr. Sankey retired from the Board at the Annual General Meeting 2012.

All Directors of Zurich Insurance Group Ltd are also members of the board of directors of Zurich Insurance Company Ltd. Mr. Ackermann also serves as chairman of that board. In addition, Mr. de Swaan is a member of the boards of directors of Zurich Insurance plc and Zurich Life Assurance plc in Ireland. Mr. Nicolaisen and Ms. Bies are members of the board of directors of Zurich Holding Company of America, Inc. (ZHCA). With the exception of Ms. 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 Insurance Group 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 Directors' fees.

Board Composition

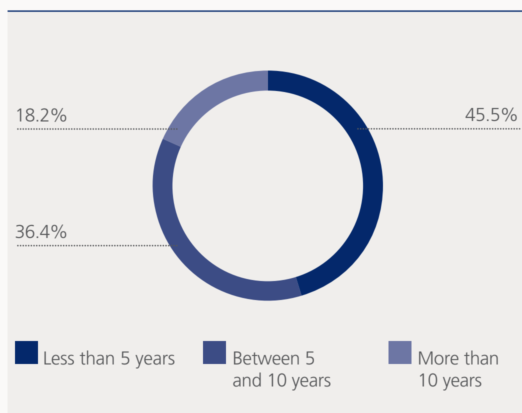
Diversity is a key success factor in today's fast changing global environment. Zurich's Board consists of individuals with wide-ranging relevant backgrounds, experiences, skills and knowledge resulting in a favorable balance that enables the Board as a group to exercise its tasks and responsibilities while fully taking into account today's business needs.

Currently, the Board includes members of five nationalities. The Board members gained their business experience in a broad range of jurisdictions resulting in a profound collective knowledge of international business practices. The Board also benefits from its members' broad cultural, educational and professional backgrounds, which include financial services, manufacturing, engineering and legal and regulatory.

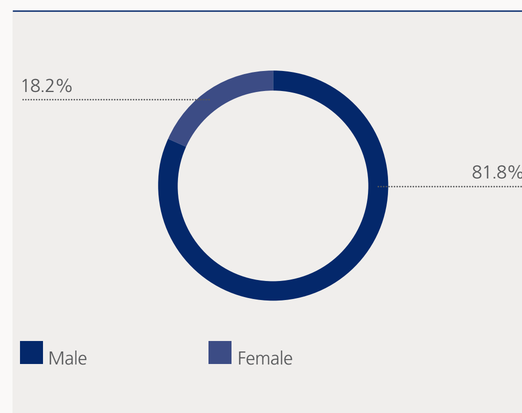
The Board nominated Ms. Monica Mächler for election at the Annual General Meeting on April 4, 2013 as an additional member of the Board of Zurich Insurance Group Ltd, proposing thereby to add Ms. Mächler's skills, deep knowledge of the insurance industry and her overall experience to the Board, which, if elected, will increase the percentage of women representation on the Board to 27.2 percent.

For details with regard to the current Board composition as of December 31, 2012 in terms of length of tenure and gender representation please see the following:

Board by length of tenure
as of December 31, 2012



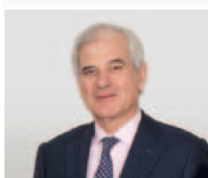
Board by gender
as of December 31, 2012



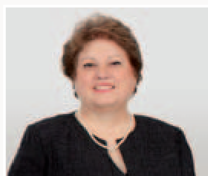
Corporate governance report *continued*

Biographies

Josef Ackermann (1948), Swiss Citizen
Chairman of the Board
Skills and experience: Mr. Ackermann has been serving as Chairman of Zurich Insurance Group Ltd since March 2012. Prior to this he served as Vice-Chairman for two years.
Mr. Ackermann started his career at Schweizerische Kreditanstalt (SKA) in 1977. 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. Mr. Ackermann was chairman of the management board from February 2006 until May 2012.
Committee memberships: Governance and Nominations Committee (Chairperson), Remuneration Committee
Other directorships within the Group: Zurich Insurance Company Ltd (Chairman)
External appointments: Mr. Ackermann has been a member of the supervisory board of Siemens AG (second deputy chairman), Germany since 2003; a member of the board of directors of Royal Dutch Shell plc, The Netherlands since 2008; a member of the board of directors of Investor AB, Sweden since 2012; as well as vice-chairman of the board of directors of Belenos Clean Power Holding Ltd, Biel since 2008. Since 2012, he has also been a member of the International Advisory Board of the China Banking Regulatory Commission (CBRC), the National Bank of Kuwait as well as of Akbank, Turkey. Mr. Ackermann also plays an active role in the World Economic Forum (vice-chairman of the foundation board); the St. Gallen Foundation for International Studies (chairman); the Foundation Lindau Nobel prizewinners Meetings at Lake Constance (Honorary Senate member) and the Metropolitan Opera New York (advisory director). Also, and amongst others, 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 Frankfurt's Johann Wolfgang Goethe University. Furthermore, he is an Honorary Fellow of the London Business School and holds an Honorary Doctorate from the Democritus University of Thrace in Greece. Mr. Ackermann is also member of the International Advisory Board of the Lingnan (University) College, Sun Yatsen University.
Educational background: Mr. Ackermann gained his doctorate in economics and social sciences from the University of St Gallen, Switzerland.



Tom de Swaan (1946), Dutch Citizen
Vice-Chairman of the Board
Skills and experience: Mr. de Swaan has served in the banking industry of The Netherlands for over 40 years. 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 in May 2006, but continued as an advisor to the managing board until June 2007. Between 1987 and 1988, Mr. de Swaan 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.
Committee membership: Risk Committee (Chairperson),
Governance and Nominations Committee
Other directorships within the Group: Zurich Insurance Company Ltd, Zurich Insurance plc, Zurich Life Assurance plc
External appointments: Mr. de Swaan has been a non-executive member of the board of GlaxoSmithKline Plc and chairman of its audit committee since 2006. He has been a member of the supervisory board of Royal DSM, a Netherlands based nutrition group, since 2006. He has been the vice-chairman of the supervisory board of Royal Ahold, a global retail chain, since 2007. Mr. de Swaan has been chairman of the supervisory board of Van Lanschot NV, the holding company of F. van Lanschot Bankiers, an independent Dutch bank, since 2008. He has also been a member of the public interest committee of KPMG ELLP since 2010 and a member of the International Advisory Board of the National Bank of Kuwait. In addition, Mr. de Swaan is a director of a number of non-profit organizations. 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.
Educational background: Mr. de Swaan graduated from the University of Amsterdam with a master's degree in economics.



Susan Bies (1947), U.S. Citizen
Member of the Board
Skills and experience: Ms. Bies has served as a member of the Board of Zurich Insurance Group Ltd since April 2008. Ms. Bies 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, Ms. 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.
Committee membership: Audit Committee, Risk Committee
Other directorships within the Group: Zurich Insurance Company Ltd, Zurich Holding Company of America, Inc.
External appointments: Ms. Bies has served as a member of the board of directors of The Bank of America Corporation since June 2009 and has also been a member of the Senior Advisory Board of Oliver Wyman since 2009.
Educational background: Ms. Bies graduated with a BS degree from the State University College at Buffalo, New York and with a MA degree from Northwestern University, Evanston, where she later gained a PhD.

Alison Carnwath (1953), British Citizen
Member of the Board
Skills and experience: Ms. Carnwath has substantial financial industry experience. She began her career with Peat Marwick Mitchell, now KPMG, in 1975 to 1980 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, from 2004 to 2007 of Gallaher Group and from 2007 to 2010, she was the independent Chairman of MF Global Inc. Further, she also served on the board of directors of Barclays from 2010 to 2012.
Committee membership: Remuneration Committee
Other directorships within the Group: Zurich Insurance Company Ltd
External appointments: Ms. Carnwath has been a Senior Advisor of Evercore Partners since 2011 and an independent Chairman of ISIS Equity Partners LLP since 2000. She has been a Chairman of the Board of Land Securities Group plc since 2008 and a member of the board of Man Group plc since 2001 and PACCAR Inc. since 2005.
Educational background: Ms. Carnwath graduated in economics and German from the University of Reading.

Corporate governance report *continued*

Victor L.L. Chu (1957), British Citizen
Member of the Board
Skills and experience: Mr. Chu has expertise in the field of corporate, commercial and securities laws spanning 30 years, with special emphasis on China and regional investment transactions. From 1995 to 2000, Mr. Chu was deputy secretary-general of the International Bar Association. Over the past 25 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 admitted to practice law in England and Hong Kong.
Committee membership: Governance and Nominations Committee
Other directorships within the Group: Zurich Insurance Company Ltd
External appointments: Mr. Chu has been chairman of First Eastern Investment Group, a leading direct investment firm focusing on China and Asia-related opportunities, since 1988. He has also been chairman of First Eastern Investment Bank Limited since 2006 and of FE Securities Limited since 1994. 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 chairman of the Hong Kong/European Union Business Cooperation Committee, vice-chairman of Asia House in London and a member of the Mayor of London's International Business Advisory Council.
Educational background: Mr. Chu graduated with a LL.B. from the University College London where he is now a Honorary Fellow. He was awarded the 2011 Global Economy Prize by the Kiel Institute for the World Economy.

Rafael del Pino (1958), Spanish Citizen
Member of the Board
Skills and experience: Mr. del Pino possesses more than 30 years of international management experience. 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. In addition, Mr. del Pino was a member of the board of Banesto (Banco Español de Crédito S.A.) from 2003 to 2012.
Committee membership: Remuneration Committee
Other directorships within the Group: Zurich Insurance Company Ltd
External appointments: Mr. del Pino has been a member of the International Advisory Board of Blackstone since 2007. He also maintains contact with the academic world through membership on the MIT Corporation, the International Advisory Board of IESE and the European Advisory Board of Harvard Business School.
Educational background: Mr. del Pino graduated in civil engineering from the Universidad Politécnica Madrid and obtained an MBA from MIT Sloan School of Management.

Thomas K. Escher (1949), Swiss Citizen
Member of the Board
Skills and experience: Mr. Escher has extensive experience in the fields of information technology and banking. He joined IBM in 1974 and had managerial responsibility for several international markets. In 1996, Mr. Escher joined Swiss Bank Corporation as a member of the executive board and was 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 until mid-2005 as a member of the group managing board. Mr. Escher assumed the function of vice-chairman in the Business Group Global Wealth Management & Swiss Bank of UBS AG in 2005.
Committee membership: Remuneration Committee (Chairperson)
Other directorships within the Group: Zurich Insurance Company Ltd
External appointments: Mr. Escher has been a member of the board of directors of Silent-Power AG of Cham, Switzerland, a company in the alternative energy field, since 2012.
Educational background: Mr. Escher graduated in electrical engineering and in Business Administration from the Swiss Federal Institute of Technology (ETH).

Fred Kindle (1959), Citizen of Liechtenstein and Switzerland
Member of the Board
Skills and experience: Mr. Kindle possesses broad professional experience, acquired in various roles. He began working as a marketing project manager with Hilti AG in Liechtenstein from 1984. 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 Clayton, Dubilier & Rice LLP, a private equity firm based in New York and London.
Committee membership: Audit Committee
Other directorships within the Group: Zurich Insurance Company Ltd
External appointments: In his capacity as a partner of Clayton, Dubilier & Rice, Mr. Kindle has served as a chairman of Exova Ltd., Scotland since 2008, chairman of BCA Group, United Kingdom since 2010 and as a director of Rexel SA, France since 2009. He has also been on the board of VZ Holding Ltd., Zurich since 2002 and Stadler Rail AG, Bussnang since 2008.
Educational background: Mr. Kindle graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a master's degree in engineering and holds an MBA from Northwestern University, Evanston, United States.

Armin Meyer (1949), Swiss Citizen
Member of the Board
Skills and experience: Mr. Meyer has an extensive management track record, acquired at international industrial organizations. He joined BBC Brown Boveri in 1976 as a development engineer and became head of research and development for industrial motors in 1980. He took over as head of the international business unit for electrical power generators in 1984. Mr. Meyer became president of ABB Drives Ltd. in 1988 and president of ABB Power Generation Ltd. in 1992. 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 2001 until December 2007, he also acted as chief executive officer. 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.
Committee membership: Governance and Nominations Committee,
Risk Committee
Other directorships within the Group: Zurich Insurance Company Ltd
External appointments: Mr. Meyer became a member of the board of directors of Amcor Limited in Melbourne, Australia in 2010.
Educational background: Mr. Meyer graduated with a PhD in electrical engineering from the Swiss Federal Institute of Technology (ETH).

Don Nicolaisen (1944), U.S. Citizen
Member of the Board
Skills and experience: Mr. Nicolaisen has substantial expertise in accounting, auditing and financial reporting. He joined Price Waterhouse (which subsequently became PricewaterhouseCoopers or PwC) and was admitted to partnership in 1978. He served in various capacities, including as an auditor and as chairman of their financial services practice. Mr. Nicolaisen also led PwC'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 of PwC 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.
Committee membership: Audit Committee (Chairperson),
Risk Committee
Other directorships within the Group: Zurich Insurance Company Ltd, Zurich Holding Company of America, Inc.
External appointments: Mr. Nicolaisen has been a member of the board of directors of Verizon Communications Inc. since 2005, Morgan Stanley since 2006 and MGIC Investment Corporation since 2006. In addition, he serves on the board of advisors for the University of Southern California Leventhal School of Accounting.
Educational background: Mr. Nicolaisen graduated from the University of Wisconsin-Whitewater with a BBA degree.

Corporate governance report *continued*

Rolf Watter (1958), Swiss Citizen
Member of the Board
Skills and experience: Mr. Watter possesses extensive experience in the field of corporate law, particularly complex cross-border transactions and corporate governance questions and has been a partner at Bär & Karrer AG in Zurich since 1994. He 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. Mr. Watter serves as a part-time professor at the Law School of the University of Zurich. He was formerly a non-executive chairman of Cablecom Holding AG from 2004 to 2008. Mr. Watter was also a non-executive director of Syngenta AG from 2000 to 2012, of Centerpulse AG from 2002 to 2003, of Forbo Holding AG from 1999 to 2005 and of Feldschlösschen Getränke AG from 2001 to 2004.
Committee membership: Audit Committee
Other directorships within the Group:
Zurich Insurance Company Ltd
External appointments: Mr. Watter has been a non-executive director of Nobel Biocare Holding AG since 2007 and has served as chairman of the board since summer 2012. He has been a non-executive director of UBS Alternative Portfolio AG since 2000 and of A.W. Faber-Castell AG since 1997.
He is a member of the SIX admission board and of its Disclosure Commission of Experts. Moreover, Mr. Watter will assume the position of non-executive chairman of the board of PostFinance AG in mid-2013. He also serves as chairman of two charity institutions.
Educational background: Mr. Watter graduated from the University of Zurich with a doctorate in law and holds a master of laws degree from Georgetown University in the U.S. He is admitted to the bar of the Canton of Zurich.

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. According to the Group's internal guidelines, in general, the maximum tenure of Board members may not exceed twelve years and 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.

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 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.

At the Annual General Meeting on March 29, 2012, Messrs. Ackermann, Escher and Nicolaisen were re-elected to the Board for a term of three years and Ms. Alison Carnwath and Mr. Rafael del Pino were elected to the Board for a term of two years.

At the Annual General Meeting to be held on April 4, 2013, the terms of office of Ms. Bies and Messrs. Chu, Meyer and Watter will expire. Ms. Bies has been proposed for re-election by the Board for a term of three years and Mr. Chu has been proposed for re-election by the Board for a term of one year. Since the Group's internal guidelines provide for a maximum tenure of twelve years, Mr. Watter has been proposed for re-election by the Board for a term of one year as he will have served the maximum tenure of office at the Annual General Meeting 2014. Mr. Meyer who has served the maximum tenure of office at the Annual General Meeting on April 4, 2013 will not stand for re-election to the Board.

Ms. Monica Mächler has been nominated for election at the Annual General Meeting on April 4, 2013 as an additional member of the Board of Zurich Insurance Group Ltd for a term of three years. For details as to Ms. Monica Mächler's biography, see the following:

Monica Mächler (1956), Swiss Citizen
Skills and experience: Monica Mächler served as Vice-Chair of the Board of Directors to the Swiss Financial Market Supervisory Authority (FINMA) from 2009 to 2012, after having been the Director of the Swiss Federal Office of Private Insurance from 2007 to 2008. Joining Zurich Insurance Group in 1990, she assumed the roles of Group General Counsel and Head of the Board Secretariat from 1999 to 2006 and was appointed a member of the Group Management Board in 2001. During the years 1985 to 1990 she was in private practice specializing in banking and business law.
From 2010 to 2012, Ms. Mächler chaired the Technical Committee of the International Association of Insurance Supervisors (IAIS). She has been a member of several Swiss federal expert commissions on regulatory projects and is regularly speaking, lecturing as well as publishing on international business law and regulation and their impact.
External appointments: Ms. Mächler has been a member of the Supervisory Board of Directors of Deutsche Börse AG since May 2012.
Educational background: She earned her JD at the University of Zurich's Law School and attended programs on UK, U.S. and private international law. Monica Mächler is admitted to the bar of the Canton of Zurich.

Internal organizational structure and responsibilities

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 to the discharge of 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 2012, considering the changes in the composition of the Board (new chairman, two new members, changes in the composition of the Board Committees) it was decided that the Board's self-assessment would be based on a more condensed questionnaire than in previous years. The questionnaire encompassed topics such as time spent by the Board members on given topics, strategy-related questions (clarity of strategy, opinion building process on strategy, monitoring of strategy implementation), board composition and participation, effectiveness and efficiency of meetings, quality of meeting preparation, general effectiveness (atmosphere, interaction with senior management, etc.). A detailed report on the findings was produced and considered by the Board.

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

The CEO attends 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 at the invitation of the Board. Most Board meetings include private sessions of the Board without the participation of Management.

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

The Board is required to meet at least six times each year. During 2012 it held 10 meetings (of which seven 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 during the course of a day, four meetings took about three hours on average and one meeting lasted about half an hour. In addition, the Board approved one circular resolution.

In 2012, average attendance at Board meetings was 87 percent. The members of the Board spent additional time participating in Board Committee meetings and preparing for meetings in order to discharge their duties.

Corporate governance report *continued*

The Board is responsible for the ultimate management of Zurich Insurance Group Ltd and, to the extent legally permissible, of the Group as well as for the supervision of the Management. In particular, it is responsible for taking actions in the following areas:

- **Group Strategy:** The Board regularly reviews and discusses in particular the Group's business portfolio including its target market, acquisition, customer and intermediaries strategy and its HR strategy;

- **Finance:** The Board particularly approves the financial and operating plan annually, establishes guidelines for capital allocation and financial planning. Further, the Board reviews and approves the annual and interim consolidated financial statements of Zurich Insurance Group Ltd and the Group. Above certain thresholds, the Board approves major lending and borrowing transactions;

- **Structure and Organization of the Group:** The Board determines and regularly reviews the basic principles of the Group's structure and major changes in the Group's management organization including major changes of management functions. In this respect, the Board particularly discusses the Group's corporate governance framework and its remuneration system. The Board also adopts and regularly reviews the basic principles of conduct, compliance and risk management for the Group. Further, as part of its duty to convene the shareholders' meeting and submit proposals to the shareholders' meeting, it discusses the dividend policy and the Board's proposal for the payment of dividends. Within its authorities the Board also resolves on capital increases and the certification of capital increases and respective amendments to the articles of incorporation;

- **Business Development:** Above certain thresholds, the Board regularly discusses and approves acquisitions and disposals of businesses and assets, investments, new businesses, mergers, joint ventures, co-operations and restructurings of business units or books of businesses.

Besides discussing the above-mentioned matters on a regular basis, in 2012, the Board specifically focused on the following areas:

- risk management and investment management in the light of the Eurozone crisis;

- the consequences of the low interest environment on inter alia the product mix in the Global Life segment and investment management;

- regulatory developments regarding liquidity, capital requirements and solvency management;

- developments with regard to corporate governance and remuneration-related matters, their potential effect on Zurich and corresponding preparatory measures.

The Board may appoint committees for specific areas from among its members and establish terms of reference and rules with respect to delegated tasks and responsibilities and reporting to the Board. The committees assist the Board in performing its duties. They discuss and propose matters to the Board to take appropriate actions and pass resolutions unless they are authorized to take resolutions in specific areas on their own. In 2012, 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:

Governance and Nominations Committee

Composition and membership: The Governance and Nominations Committee consists of at least four Board members. Currently, Messrs. Josef Ackermann (Chairperson), Armin Meyer, Tom de Swaan and Victor L.L. Chu serve on this committee.

Key tasks and responsibilities: In general, the Governance and Nominations Committee

- 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;
- develops and proposes to the Board guidelines for corporate governance and reviews them from time to time;
- ensures compliance with corporate governance disclosure requirements as well as legal and regulatory requirements;
- is entrusted with the succession planning for 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, the appointment of the Chairman, the Vice-Chairman, the CEO and members of the GEC. Final decisions for nominations and appointments are made by the Board, subject to shareholder approval, where required; and,
- reviews the system for management development and supervises progress made in respect of succession planning.

Activities 2012: During 2012, the Governance and Nominations Committee met five times – average attendance at meetings was 90 percent. It particularly discussed

- developments with regard to corporate governance related matters and their potential effect on Zurich;
- succession planning for the Board resulting in its recommendation to the Board to nominate Ms. Monica Mächler for election at the Annual General Meeting on April 4, 2013;
- management succession planning, including a review of the leadership team and talent and diversity management; and,
- modifications and changes to the Corporate governance report.

Remuneration Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Remuneration Committee to consist of at least four non-executive Board members. Currently, Messrs. Thomas Escher (Chairperson), Josef Ackermann, Rafael del Pino and Ms. Alison Carnwath serve on this committee.

Key tasks and responsibilities: In general, the Remuneration Committee

- evaluates regularly 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.

  Further details of the Group's remuneration governance and the Remuneration Rules are given in the Remuneration report on pages 56 to 81;
- proposes the Directors' remuneration to the Board for approval;
- based on the Remuneration Rules, 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;
- liaises with the CEO on other important employment, salary and benefit matters;
- reviews performance relating to the senior management's short-term and long-term incentive plans. In addition, in order to help align remuneration with the Group's risk-taking capacity, Group Risk Management consults with the other governance, control and assurance functions to provide a review of risk factors for consideration when overall

Corporate governance report *continued*

performance for annual incentives is assessed and the Chief Risk Officer is available to discuss these findings with the Remuneration Committee and the Board.

Activities 2012: During 2012, the Remuneration Committee met seven times – attendance at meetings was 100 percent. It particularly discussed

- the performance of the Group, the segments and the GEC and the approval of STIP and LTIP awards for 2011 including the approval of the Total Variable Remuneration Pool for 2011;
- the regulatory environment such as implications from the FINMA Circular 2010/1 Remuneration Schemes and remuneration aspects raised by Ethos and ISS;
- developments for remuneration-related matters and their potential effect on Zurich;
- topics related to proxy advisors such as Ethos or ISS;
- the share ownership levels of the members of the Board and the GEC (for more details see the Remuneration report on page 70 and 77);
- in the annual joint meeting with the Risk Committee, risk management aspects of the Group's remuneration architecture;
- in its annual review, the Remuneration report, the Remuneration Rules and the Remuneration Committee rules and approved them; and,
- in its annual review, the Board and GEC compensation.

The Remuneration Committee has retained its own independent advisors, Meridian Compensation Partners, LLC and Aon Hewitt to assist in reviewing the remuneration structures and practices.

Audit Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Audit Committee to consist of at least four non-executive Board members independent from the Management. Currently, Messrs. Don Nicolaisen (Chairperson), Fred Kindle, Rolf Watter and Ms. Susan Bies – all of whom meet the relevant requirements for independence and qualification – serve on this committee.

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 Insurance Group 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.

To facilitate an ongoing exchange of information between the Risk Committee and the Audit Committee, the Chairperson of the Audit Committee is a member of the Risk Committee and a member 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.

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. Private sessions with external and internal auditors are scheduled at the majority of the Audit Committee meetings to enable discussions without Management present.

For more information on the supervision and control of the external audit process, see pages 51 and 52.

Key tasks and responsibilities: In general, the Audit Committee

- serves as a focal point for communication and oversight regarding financial accounting and reporting, internal control, actuarial practice and compliance;
- reviews the Group's auditing process (including establishing the basic principles relating to and making proposals with respect to the audit of Zurich Insurance Group Ltd and the Group);
- at least annually, reviews the standards of internal control, including the activities, plans, organization and the quality of internal audit and Group Compliance. For statements regarding internal control and the procedures in place regarding internal control according to the Internal Control: Revised Guidance to Directors on the UK Corporate Governance Code (formerly known as UK Turnbull Guidance) as of October 2005 see pages 53 and 54; and,
- reviews the annual, half-year and quarterly financial results of the Group before submission to the Board.

Activities 2012: During 2012, the Audit Committee met seven times – attendance at meetings was 100 percent. It particularly discussed

- accounting policy changes (for example IFRS 10 which will be adopted in 2013);
- reserving policies and matters;
- the effectiveness of the internal control framework;
- Group Audit work plans, Group Audit findings and management implementation of remediation actions;
- the work of the external auditors, the terms of their engagement and the external auditor's findings on key judgments and estimates in financial statements; and,
- the Annual Group Compliance Plan, which it approved and against which it monitored progress during the year. The Audit Committee also discussed compliance issues and trends, such as the evolving regulatory expectations with regard to the compliance function.

Risk Committee

Composition and membership: Zurich Insurance Group Ltd's Organizational Rules require the Risk Committee to consist of at least four non-executive Board members independent from the Management. Currently, Messrs. Tom de Swaan (Chairperson), Don Nicolaisen, Armin Meyer and Ms. Susan Bies serve on this committee.

To facilitate an ongoing exchange of information between the Risk Committee and the Audit Committee, the Chairperson of the Audit Committee is a member of the Risk Committee and a member 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.

Key tasks and responsibilities: In general, the Risk Committee

- oversees the Group's risk management, in particular the Group's risk tolerance, including agreed limits that the Board regards as acceptable for Zurich to bear, the aggregation of agreed limits across the Group, the measurement of adherence to agreed risk limits and the Group's risk tolerance in relation to anticipated capital levels;
- further oversees the Group-wide risk governance framework, including risk management and control, risk policies, their implementation and the risk strategy and the monitoring of operational risks;
- reviews the methodologies for risk measurement and the Group's adherence to its risk limits and reviews the performance of the risk management function;
- 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; and,

Corporate governance report *continued*

- receives periodic reports from Group risk management function and assesses whether significant issues of a risk management and control nature are being appropriately addressed by management in a timely manner.

Activities 2012: During 2012, the Risk Committee met seven times – average attendance at meetings was 96 percent. From an enterprise risk management perspective, it particularly discussed the following topics:

- the results of the Group's risk profile assessment and the development and assessment of the Group's economic and regulatory capital;
- the results of the Group's total risk profile assessment including an update regarding risk ownership and mitigation actions;
- the results and developments of the economic and statutory capital;
- the annual review of the Zurich Risk Policy (ZRP) including the endorsement of new and changed chapters;
- current risk matters such as discussions related to the significant important financial institutions topic;
- credit risks and controls including a report on derivatives;
- operational risks and controls such as an update on the data security initiative and the risk framework for sourcing/off-shoring; and,
- in the annual joint meeting with the Remuneration Committee risk management aspects of the Group's remuneration architecture.

Moreover, from a segment and regional risk perspective, the Risk Committee dealt with:

- General Insurance risks and controls, in particular reinsurance program aspects and catastrophe accumulation management;
- Global Life risks and controls such as product approvals/new products and limits;
- investment and asset/liability management risks and controls; and,
- on the occasion of deep-dive sessions, risks and controls from a regional and business specific perspective, for instance the Eurozone contingency planning and Zurich North America and Latin America in general.

For further information on risk governance see the Risk Review on pages 111 to 161.

Areas of responsibility of the Board and Management

The Board determines the overall strategy of the Group, supervises senior management and addresses key matters in the area of strategy, finance, structure and organization and business development. Particularly, 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 Insurance Group Ltd and the Group. For more details with regard to the responsibilities of the Board see page 33 and 34.

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. 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 provides for 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 and 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. 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 monthly by the GEC and quarterly by the Board.

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 111. The Risk Management & Internal Control Statement describes on pages 53 and 54 the Group's approach with regard to risk management and internal control according to the Internal Control: Revised Guidance to Directors on the UK Corporate Governance Code (formerly known as UK Turnbull Guidance) as of October 2005.

The internal audit function, the external auditors and 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 51 to 53.

Group Executive Committee

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

1 Martin Senn
Chief Executive Officer

2 Jeff Dailey[1]
Chief Executive Officer,
Farmers Group, Inc.

3 Mike Foley
Chief Executive Officer
North America Commercial,
Regional Chairman of North America

4 Yannick Hausmann[2]
Group General Counsel

5 Kevin Hogan
Chief Executive Officer
Global Life

6 Michael Kerner[3]
Chief Executive Officer
General Insurance

7 Axel P. Lehmann
Chief Risk Officer,
Regional Chairman of Europe

8 Cecilia Reyes
Chief Investment Officer

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

10 Kristof Terryn
Group Head of Operations

11 Pierre Wauthier
Chief Financial Officer

[1] Assumed role of Chief Executive Officer of Farmers Group, Inc. on January 1, 2012 and was appointed to the Group Executive Committee as of the same date
[2] Appointed to the Group Executive Committee as of July 1, 2012
[3] Assumed role of Chief Executive Officer General Insurance on September 1, 2012 and was appointed to the Group Executive Committee as of the same date

Group Management
Group Executive Committee

Group Management
as of December 31, 2012

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

The GEC is headed by the CEO. As of December 31, 2012, members of the GEC included the Chief Financial Officer, the Chief Investment Officer, the Chief Risk Officer, the Group Head of Operations and the Group General Counsel; in order to reflect both, lines of business and geography, the CEOs of the business segments General Insurance, Global Life and Farmers, as well as the CEO of North America Commercial are also members of the GEC. Further, members of the GEC also act as the Regional Chairmen of Europe, North America and Asia-Pacific and Middle East.

The Group continued simplifying its global organizational structure at the Head Office and therefore decided to discontinue the Chief Administrative Officer role. Specific areas of that office's responsibility were integrated into other functions. Further, the Group General Counsel was appointed to the GEC overseeing Legal, Compliance, Government and Industry Affairs across the Group and the Board Secretariat for Zurich Insurance Group Ltd, Zurich Insurance Company Ltd and Zurich Life Insurance Company Ltd.

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

Management Committees
The Group Balance Sheet Committee (GBSC)

Members: Chief Executive Officer (Chair), Chief Financial Officer (Deputy Chair), Chief Investment Officer, Chief Risk Officer, Chief Executive Officer General Insurance, Chief Executive Officer Global Life.

Key tasks and responsibilities:

- 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; and,
- responsible for setting the annual capital and balance sheet plans for the Group based on the Group strategy and financial plans and recommending specific transactions or unplanned business changes to the Group's balance sheet;

Corporate governance report *continued*

- oversees all main levers of the balance sheet, including but not limited to, capital management, reinsurance, asset/liability management, dividend and share buyback policy, liquidity, leverage, rating agencies and other balance sheet-related matters and topics as measured among others by the internal Zurich Economic Capital Model;

The Group Finance and Risk Committee (GFRC) Members: Chief Financial Officer (Chair), Chief Risk Officer (Deputy Chair), Chief Investment Officer, Group General Counsel, Head of Mergers & Acquisitions. In February 2013, the Group Head of Operations was appointed to the GFRC whereas the Head of Mergers & Acquisitions will cease to be a member of the GFRC.

Key tasks and responsibilities:

- 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;
- oversees financial implications of business decisions and the effective management of the Group's overall risk profile, including risks related to insurance, financial markets, asset/liability management, credit and operational risks and the interaction among these risks; and,
- reviews and formulates recommendations for future courses of action with respect to potential M&A transactions and topics relating to finance and risk management.

Technical Committees

In addition to the Management Committees the Group governance structure provides for committees of a more technical nature to support Zurich's business activities in various aspects.

The Asset/Liability Management Investment Committee, chaired by the Chief Investment Officer, acts as a cross-divisional body and has primary responsibility for monitoring and reviewing the Group's asset/liability management and the strategic asset allocation of Zurich's invested assets.

The Group Reinsurance Committee, chaired by the Global Head of Group Reinsurance, leads the reinsurance business process of the Group and is responsible for defining and executing the Group's reinsurance strategy in alignment with the Group's risk framework. It also governs the reinsurance activities among the segments and ensures that they have access to needed re-insurance capacity at economic terms.

The General Insurance Global Underwriting Committee, chaired by the Chief Underwriting Officer, General Insurance, is the focal point for the underwriting function within General Insurance. In particular, it approves underwriting and related control policy, develops and agrees the Group's underwriting strategy, monitors the accumulation control and approves mitigation plans, when necessary. The Committee is also responsible for approving new captive transactions (or renewals) and new products . Finally, it also oversees and monitors technical underwriting reviews.

The Group Pension Committee, chaired by the Chief Executive Officer, Global Life, is responsible for developing and executing a governance framework including the relevant policies and processes for pension related matters. It provides oversight and guidance over all the Group's pension and funded benefit plans for accounting, benefit design, funding and investment and provides recommendations to the GBSC in terms of pension related matters.

Panels

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 2012, the Group had three 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.

Members of the GEC, as of December 31, 2012

Name	Nationality	Year of Birth	Position held
Martin Senn	Swiss	1957	Chief Executive Officer
Jeff Dailey	American	1957	Chief Executive Officer Farmers Group, Inc.
Mike Foley	American	1962	Chief Executive Officer North America Commercial and Regional Chairman of North America
Yannick Hausmann	Swiss	1967	Group General Counsel
Kevin Hogan	American	1962	Chief Executive Officer Global Life
Michael Kerner	American	1965	Chief Executive Officer General Insurance
Axel Lehmann	Swiss	1959	Chief Risk Officer and Regional Chairman of Europe
Cecila Reyes	Swiss/Philippine	1959	Chief Investment Officer
Geoff Riddell	British	1956	Regional Chairman of Asia-Pacific and 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 on the GEC throughout 2012 except for Yannick Hausmann and Michael Kerner. Yannick Hausmann was appointed as a member of the GEC effective July 1, 2012. Michael Kerner was appointed Chief Executive Officer, General Insurance and as a member of the GEC effective September 1, 2012 succeeding Mario Greco who had resigned from the GEC and his position as the Chief Executive Officer, General Insurance effective June 4, 2012. Christian Orator retired from the GEC and his position as Chief Administrative Officer effective June 30, 2012.

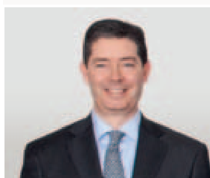
For information on contractual termination benefits, see pages 49 and 50.

Corporate governance report *continued*

Biographies

Martin Senn (1957), Swiss Citizen
Chief Executive Officer
Skills and experience: Mr. Senn is a trained banker and worked for the former Swiss Bank Corporation from 1976 to 1994 including as treasurer in Hong Kong and regional treasurer for Asia and the Pacific region in Singapore before eventually managing the company's Tokyo office. In 1994, he joined Credit Suisse where his executive roles included those of treasurer for the Head Office and Europe and chairman 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 Insurance Group in 2006 as Chief Investment Officer, serving on the Group Executive Committee and became Chief Executive Officer, effective January 1, 2010.
External appointments: Mr. Senn serves in a senior capacity with numerous business and industry organizations, including Avenir Suisse, the Zurich Association of Economics, the Swiss-American Chamber of Commerce, the Geneva Association and 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 and of the international advisory board of the Atlantic Council. Mr. Senn is also a member of the board of trustees for the Lucerne Festival and serves as a Honorary Consul of the Republic of Korea in Zurich.
Educational background: Mr. Senn received a Commercial and Banking diploma from the Business School in Basel, Switzerland and completed an International Executive Program at INSEAD in Fontainebleau as well as an Advanced Management Program at Harvard Business School.

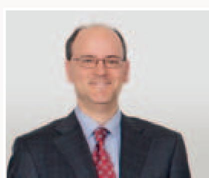
Jeff Dailey (1957), U.S. Citizen
CEO of Farmers Group, Inc.
Skills and experience: Mr. Dailey has extensive experience within the insurance industry. In 1980, he began his career with Mutual Service Insurance Company and also worked for Progressive Insurance Company. He went on to form Reliant Insurance 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, following the firm's 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 of 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 in January 2012.
External appointments: None
Educational background: Mr. Dailey graduated from the University of Wisconsin-Madison with a bachelor's degree in Economics and has an MBA from the University of Wisconsin-Milwaukee.



Mike Foley (1962), U.S. Citizen
CEO North America Commercial and Regional Chairman of North America
Skills and experience: Mr. Foley joined the financial management training program of Armtek Corporation in New Haven, Connecticut, in 1984. After graduating from Kellogg in 1989, Mr. Foley joined the Deerpath Group in Lake Forest, Illinois, as an associate. He later became vice president responsible for managing a portfolio of equity investments in various acquired businesses. In 1993 he joined Electrocal, Inc. in Connecticut as president. In 1996, Mr. Foley joined McKinsey & Company in Chicago, Illinois, where he later became a principal and 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. Mr. Foley is also the Regional Chairman of North America and Chairman of the Board of Zurich Holding Company of America, Inc. (ZHCA).
External appointments: Mr. Foley has been chairman of the Board of the American Insurance Association since 2012.
Educational background: Mr. Foley graduated with a Bachelor of Science from Fairfield University, in Fairfield, Connecticut in 1984 and a Masters degree from the JL Kellogg Graduate School of Management at Northwestern University in Evanston, Illinois in 1989.

Yannick Hausmann (1967), Swiss Citizen
Group General Counsel
Skills and experience: Mr. Hausmann started his career in 1995 at a law firm in Basel. From 1998 to 2000, he was Associate in the tax and legal department of Arthur Andersen AG and Andersen Legal in Zurich. He was a member of the Legal and Compliance Group of the Swiss Insurance Association for several years. Mr. Hausmann joined the Zurich Corporate Center Litigation and Investigation Team in 2000. He has held his current position since December 2009 and was promoted to be a member of the GEC in July 2012. He oversees the Legal, Compliance and GAIA (Government and Industry Affairs) functions worldwide across the Zurich Group as well as the Board Secretariat.
External appointments: Since 2009, Mr. Hausmann has been a member of the Legal Committees of the Swiss-American Chamber of Commerce and of economiesuisse. In 2011, he joined the Board of Trustees of the Museum Haus Konstruktiv in Zurich.
Educational background: Mr. Hausmann received a doctorate in Law from the University of Basel in 1995 and was admitted to the Bar in Switzerland (Canton of Basel) in 1997. He earned a Master of Laws (LL.M.) from the New York University School of Law in 2003 and attended the Advanced Management Program at Harvard Business School in 2012.

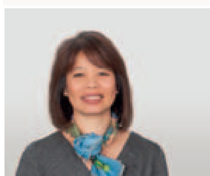
Kevin Hogan (1962), U.S. Citizen
CEO Global Life
Skills and experience: Kevin Hogan started his career in 1984 at AIG with American International Underwriters (AIU) in New York and subsequently held management positions in Chicago, Tokyo, Hong Kong and Singapore. In 1998, he was appointed president of 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 a 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.
External appointments: Mr Hogan has served as a Vice-Chairman of the WEF Global Agenda Council on Social Security Systems since 2012.
Educational background: Mr. Hogan is a graduate of Dartmouth College in Hanover, New Hampshire.



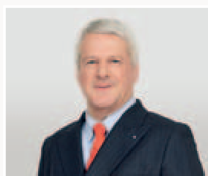
Michael Kerner (1965), U.S. Citizen
CEO General Insurance
Skills and experience: Mr. Kerner joined Zurich in 1992 from the Continental Insurance Company and since then he has held a number of senior executive positions. These include Chief Operations Officer for Zurich North America Specialties and Head of Ceded Reinsurance for Zurich North America from 2002 to 2005. From January 2006 to June 2007, he served as the Global Head of Group Reinsurance and between 2007 and 2009, Mr. Kerner was Global Chief Underwriting Officer for General Insurance and Head of Group Strategy in Zurich. Prior to his current role, he was Chief Executive Officer for Zurich Global Corporate in North America.
External appointments: None
Educational background: Mr. Kerner holds a Bachelor of Science in Mathematics and Economics from the State University of New York at Binghamton. Mr. Kerner is a Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

Corporate governance report *continued*

Axel P. Lehmann (1959), Swiss Citizen
Chief Risk Officer and Regional Chairman of Europe
Skills and experience: Mr. Lehmann worked as a project manager and research associate at the Institute for Insurance Economics at the University of St. Gallen. In 1989, he was appointed as a lecturer in business administration at the University of St. Gallen and in 1990 as vice-president and head of Consulting and Management Development at the Institute for Insurance Economics and the European Center. In 1994, he served as a visiting professor at the Bocconi University in Milan, Italy before assuming the position of head of Corporate Planning and Corporate Controlling at Swiss Life in Zurich. Mr. Lehmann joined Zurich in 1996 as a member of the Executive Management team of Zurich Switzerland and subsequently acted as head of corporate development and head of commercial lines. Mr. Lehmann became a member of the Group Management Board responsible for business development functions in November 2000. In September 2001, he took over responsibility as CEO for Northern, Central and Eastern Europe and subsequently was appointed CEO of the Zurich Group Germany. Mr. Lehmann became a member of the Group Executive Committee and CEO of the Continental Europe Business Division in March 2002. In 2004, he was in charge of the consolidation of the United Kingdom, Ireland and South Africa with the Continental Europe division. In September 2004, he became CEO of Zurich American Insurance Company and Zurich North America Commercial business division in Schaumburg, Illinois. In January 2008, he assumed his current role as Chief Risk Officer and assumed additional responsibility for Group IT until 2010. He became Chairman of the Board of Directors of Farmers Group, Inc. from July 2011 and Chairman of Europe from October 2011.
External appointments: Mr. Lehmann is a member of the board of directors of UBS AG and is a member and former Chairman of the CRO Forum. He is an Honorary Professor for Business Administration and Service Management and Chairman of the Board of the Institute of Insurance Economics (I.VW-HSG) at the University of St. Gallen in Switzerland. Mr. Lehmann is also a member of the board of directors of economiesuisse.
Educational background: Mr. Lehmann holds a PhD and Masters in Economics and Business Administration from the University of St. Gallen, Switzerland where he also received his habilitation. He is a graduate of the Wharton School Advanced Management Program. His doctorate was awarded the Peter Werhahn Prize for the best PhD thesis in the area of management science and academic theory. He did his research study at Harvard Business School and Arizona State University.



Cecilia Reyes (1959), Swiss and Philippines Citizen
Chief Investment Officer
Skills and experience: Ms. Reyes has over 20 years' experience in the international financial markets. Ms. Reyes 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. 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 Zurich in 2001 as Regional Manager for Group Investments with responsibility for North America and became Regional Manager for Europe and International Businesses in 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.
External appointments: Ms. Reyes has been a member of the Advisory Board of the Department of Banking and Finance at the University of Zurich since 2011.
Educational background: Ms. Reyes holds a PhD in Finance from London Business School and an MBA from the University of Hawaii, U.S.



Geoffrey Riddell (1956), British Citizen
Regional Chairman of Asia-Pacific and Middle East
Skills and experience: Mr. Riddell 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 set up the first foreign general insurance company in China. He joined Zurich in 2000 as managing director of Zurich Commercial in the UK, becoming managing director of the UK Corporate and Government businesses. In 2002, he was appointed Chief Executive Officer of General Insurance in the UK, Ireland and Southern Africa. Mr. Riddell assumed the position of CEO of Global Corporate in April 2004, becoming a member of the Group Executive Committee in October 2004. In 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 of Chairman of Global Corporate. In 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.
External appointments: Mr. Riddell has been a director of the General Committee of the British Chamber of Commerce in Hong Kong since April 1, 2011.
Educational background: Mr. Riddell holds a MA degree in natural sciences (chemistry) from Oxford University (The Queen's College) and later qualified as a chartered accountant.

Kristof Terryn (1967), Belgian Citizen
Group Head of Operations
Skills and experience: Mr. Terryn began his career in 1993 in the banking industry, where he worked in capital markets. In 1997, he joined McKinsey & Company where he held various positions within the financial services practice in Brussels and Chicago. 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 2009 was named Chief Operating Officer for General Insurance. In his current role, which he assumed in 2010, he is responsible for the Group's shared services, IT, procurement and sourcing as well as operational transformation initiatives.
External appointments: None
Educational background: Mr. Terryn 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.

Pierre Wauthier (1960), French and British Citizen
Chief Financial Officer
Skills and experience: Mr. Wauthier began his career in 1982 at KPMG. He then worked for two years at the French Ministry of Foreign Affairs. He joined J.P. Morgan in Paris in 1985 and held various senior positions. In 1994, he joined J.P. Morgan's office in London as Vice-President and was 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 Head of Centrally Managed Businesses. He assumed his current role in October 2011.
External appointments: Mr. Wauthier has been a member of the European Insurance CFO Forum since 2011.
Educational background: Mr. Wauthier holds a Masters in International Finance from l'Ecole des Hautes Etudes Commerciales in Paris and a master's degree in Private Law from the Sorbonne University in Paris.

Corporate governance report *continued*

Changes to the GEC as from January 1, 2013

There have been no changes to the GEC as from January 1, 2013.

Management contracts

Zurich Insurance Group 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 entitles the holder to one vote. There are no voting right restrictions.

A shareholder with voting rights can attend shareholders' meetings of Zurich Insurance Group 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 voting proxy, to a statutory representative or to a bank as the proxy holder of deposited shares who do not need to be shareholders themselves. In addition, for the first time Zurich offers to its shareholders the option to give voting instructions for the AGM 2013 via the online platform Sherpany. All shareholders that signed and returned the respective Sherpany account opening form by February 17, 2013 will be able to use this online option starting on March 8, 2013 to electronically mandate either the independent voting proxy or the company proxy to vote on their behalf at the AGM 2013. New shareholders and those that missed to enroll this year will have the opportunity to register in the coming years.

Zurich Insurance Group 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 another entity recognized by Zurich Insurance Group Ltd) to attend the shareholders' meetings and exercise votes as proxy of the relevant nominee. For further details, see page 22.

Zurich Insurance Group Ltd provided electronic voting devices to its shareholders for all the resolutions taken at the AGM on March 29, 2012. In accordance with Swiss practice, Zurich Insurance Group Ltd informs all shareholders at the beginning of the shareholders' meeting of the aggregate number of proxy votes received.

Statutory quora

Pursuant to the articles of incorporation, the shareholders' 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 shareholders' meetings

Shareholders' meetings are convened by the Board 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 is responsible for setting the agenda and sending it to 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 in 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.

Information Policy

As of December 31, 2012 Zurich Insurance Group Ltd has approximately 125,000 shareholders registered in its share register, ranging from private individuals to large institutional investors (for details see page 349). Each registered shareholder receives an invitation to a shareholders' meeting. Letter to shareholders provide a quarterly overview of the Group's activities as the year progresses and outline its financial performance. A 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/shareholderinformation/) and are also available in printed form upon request. Information on the quarterly results reporting is also available for all shareholders on Zurich's website.

Zurich Insurance Group 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 Insurance Group Ltd organizes investor days for institutional investors and analysts to provide comprehensive information on its businesses and strategic direction. Such presentations can be followed via webcast or conference call. In 2012, the investors' day was held in Zurich on November 29, focused on progress on the delivery of the Group's 2013 targets and included presentations by the CEO and the CEOs of the business segments. The CFO provided an update on capital and cash flows and the CFO of the Global Life segment provided insights into life business cash flows. Finally, the management team for Latin America presented the business opportunities in their region. Another investor day is planned for 2013. A wide range of information on the Group and its businesses, including the aforementioned results reporting documents and the full documentation distributed at investor days, is also available on the Investor Relations section of Zurich's website www.zurich.com (http://www.zurich.com/investors).

Zurich Insurance Group Ltd will hold its Annual General Meeting on April 4, 2013. 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 the shareholders at least 20 days before the meeting.

For addresses and further upcoming important dates, see Shareholder Information starting on page 348 (Financial Calendar on page 350).

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 through printed and online publications, team briefings and regular meetings with employees' representatives. Further, the Group is party to a voluntary agreement with employee representatives of the Group's companies in Europe. For further information on the Group's people management activities, see the Annual Review starting on page 12, also available on Zurich's website www.zurich.com (http://www.zurich.com/internet/main/sitecollectiondocuments/financial-reports/annual-review-2012-en.pdf).

In some countries, the Group has established broad-based employee share compensation and incentive plans to encourage employees to become shareholders of the Group.

Changes of control and defense measures

Duty to make an offer

The articles of incorporation of Zurich Insurance Group Ltd do not provide for 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 33⅓ percent of the issued and outstanding share capital of Zurich Insurance Group Ltd.

Clauses on changes of control

Employment agreements have been entered into with 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. 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.

Corporate governance report *continued*

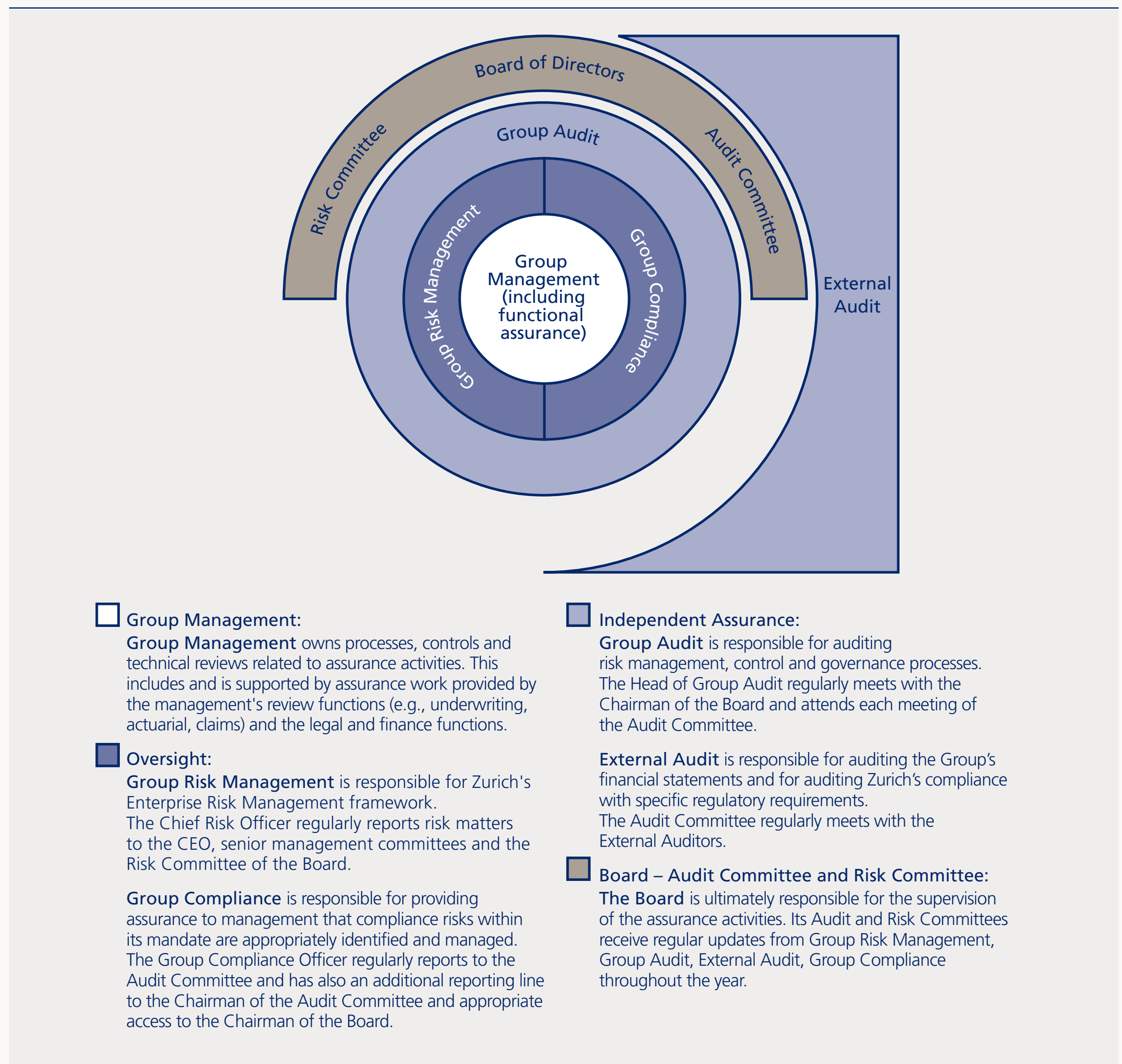
These regulations provide that in the case of a change of control, the Plan Administrator (the Remuneration Committee or the CEO, as applicable) has the right to roll over the existing share obligations into new share rights or to provide consideration for such obligations that are not rolled over. Participants 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 members of the Group's senior management in case of a change of control.

No benefits are provided for the members of the Board in case of a change of control.

Assurance at Zurich Insurance Group

At Zurich, various governance and control functions coordinate to help ensure that 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". The Board is ultimately responsible for the supervision of these assurance activities. Although, each assurance provider maintains its distinct mandate and responsibilities, the assurance providers are closely aligned and co-operate with each other through a regular exchange on information, planning and other activities. This approach supports management in its responsibilities and provides confidence that risks are appropriately taken care of and that adequate mitigation actions are implemented.

Assurance at Zurich Insurance Group
as of December 31, 2012



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 Insurance Group Ltd's external auditor.

PwC assumes all auditing functions which are required by law and by the articles of incorporation of Zurich Insurance Group Ltd. The external auditors are elected by the shareholders of Zurich Insurance Group Ltd annually. At the Annual General Meeting on March 29, 2012, PwC was re-elected by the shareholders of Zurich Insurance Group Ltd. The Board proposes that PwC be re-elected at the upcoming Annual General Meeting as external auditors for the business year 2013. PwC fulfils all necessary requirements under the 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.

PwC and its predecessor organizations, Coopers & Lybrand and Schweizerische Treuhandgesellschaft AG, have served as external auditors of Zurich Insurance Group Ltd and its predecessor organizations since May 11, 1983. In 2000 and 2007, the Group conducted tender processes, inviting all major auditing firms to submit their work program and tender offers. After a thorough review, on both occasions the Board came to the conclusion that PwC's work program and offer prevailed and therefore proposed PwC for re-election.

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 lead auditors after they have served Zurich for five years. Mr. Stephen O'Hearn has replaced Mr. Patrick Shouvlin as the Global Relationship Partner and has co-signed the auditors' report for 2012.

Audit fees

Total audit fees (including expenses and value added taxes) charged by PwC in the year 2012 amounted to USD 43.9 million (USD 38.0 million in 2011).

Non-audit fees

Total fees (including expenses and value added taxes) in the year 2012 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 Insurance Group Ltd or a Group company amounted to USD 6.4 million (USD 4.6 million in 2011). Non-audit fees were as follows:

Audit and non-audit fee amounts

in USD millions, as of December 31	2012	2011
Total audit fees	**43.9**	**38.0**
Total non-audit fees	**6.4**	**4.6**
– Tax advice	0.8	0.5
– Legal advice	0.0	0.0
– Transaction consulting incl. due diligence	0.1	0.1
– Audit-related advice	4.0	2.3
– Other	1.5	1.7

Supervision and control over the external audit process

The Audit Committee regularly meets with the external auditors, at least four times a year. During 2012, the Audit Committee met with the external auditors seven times. The external auditors regularly have private sessions with the Audit Committee without Management present. Based on written reports, the Audit Committee discusses with the external auditors the quality of the Group's financial and accounting function and any recommendations that the external auditors may have. Topics considered during such discussions include strengthening of internal financial controls, applicable accounting principles and management reporting systems. In connection with the audit, the Audit Committee obtains from the external auditors a timely report relating to the audited financial statements of Zurich Insurance Group Ltd and the Group.

The Audit Committee oversees the work of the external auditors. 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

Corporate governance report *continued*

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 Insurance Group 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 the external auditors 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 out 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 the independence or objectivity of the 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 the expected fee. This policy further requires, among other things, an engagement letter specifying the services to be provided and making reference to the external auditors' obligation to comply with the 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 and to the boards and audit Committees of subsidiary companies. This is accomplished by developing a risk-based plan which is updated continuously as the risks faced by the business changes. The plan is based on the full spectrum of business risks including concerns and issues raised by the Audit Committee, Management and other stakeholders. Group Audit executes the plan in accordance with defined operating standards, which incorporate and comply with the International Standards for the Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA). Key issues raised by Group Audit are communicated to the responsible management function, the CEO and the Audit Committee using a suite of reporting tools.

The Audit Committee, boards and audit committees of subsidiary companies and CEO are regularly informed of important audit findings, including ineffective opinions, mitigation actions and attention provided by Management. Group Audit is responsible for ensuring that issues that could impact the Group's operations are brought to the attention of the Audit Committee and appropriate levels of management and that timely follow up action occurs. This is supported by the attendance of the Head of Group Audit at each meeting of the Audit Committee.

Group Audit is authorized to review all areas of the Group and has unrestricted access to all Group activities, accounts, records, property and personnel necessary to fulfill its duties. In the course of its work, Group Audit takes into consideration the work of other assurance functions. In particular, Group Audit co-ordinates its activities with the external auditors, sharing risk assessments, work plans, audit reports and updates on audit actions. Group Audit and the external auditors meet regularly at all levels of the organization to optimize assurance provision and efficiency.

The Audit Committee assesses the independence of Group Audit and reviews its activities, plans, organization, quality and its mutual cooperation with the external auditors. As required by professional and regulatory quality assurance regulations the Internal Audit function has to be quality-reviewed periodically, but at least every five years by an independent qualified body. This review was most recently conducted in 2011. The results confirmed that Group Audit's practices conform with all Institute of Internal Audit standards and FINMA requirements and Group Audit was assessed as a very mature internal audit function.

The Audit Committee approves the Group Audit Plan annually, reviews reports from the function on its activities and significant risk, control and governance issues, at least every quarter. The Head of Group Audit reports functionally to the 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, to ensure independence, all Group Audit staff globally report (via audit managers) to the Head of Group Audit.

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 Group 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, training and assurance of appropriate compliance controls within the mandate of the Group Compliance function. These compliance controls include ongoing reviews of laws, regulations and other requirements at all levels of the organization. The compliance function also 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. The compliance plan is annually presented to the Audit Committee.

Through a comprehensive program, the compliance function implements, embeds and monitors internal policies and guidance. As part of that program, compliance officers introduce new employees to applicable rules and are involved 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 Group's Compliance function spearheads internal awareness campaigns on ethical and regulatory conduct. Each year Zurich managers confirm their understanding of and compliance with Zurich Basics and internal policies. Zurich encourages its employees to speak up and report improper conduct through for example the Zurich Ethics Line, a phone and web-based service. Zurich does not tolerate retaliation against any employee who reports such concerns in good faith.

The Group's compliance function consisting of compliance professionals around the world is overseen by the Group Compliance Officer who reports to the Group General Counsel and regularly reports to the Audit Committee. The Group Compliance Officer has an additional reporting line to the Chairman of the Audit Committee and appropriate access to 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, for which Management is responsible. 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.

Local management, led by the legal entity CEO, is responsible to maintain appropriate controls in place and to appropriately identify and address risks. They meet frequently with risk management and other 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 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, and the Audit Committees of the Board as well as the 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.

Corporate governance report *continued*

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 Group Executive Committee 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 2012, 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 of the Board and Group Management receive regular reports summarizing financial condition, financial and operating performance, as compared to plan, and key risk exposures.

Processes and controls in the organization are subject to risk-based reviews by Management, Group Audit, Group Compliance and Group Risk Management. Management reviews include the effective implementation of policies and procedures including claims, investment, underwriting, actuarial, treasury, accounting and reporting, as well as effectiveness of control for significant operations and information technology systems. The Board, the Audit and Risk Committees of the Board receive regular and, as needed, special reports from the Chief Risk Officer, Group General Counsel, Head of Group Compliance, Group Chief Financial Officer and Group Controller, Head of Group Audit and financial and business senior management. 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 the effectiveness of 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 2012 up to the date of the Annual Report and have reported to the Board accordingly. The Board is satisfied that the reviews by the Audit and Risk Committees of the Board 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, including the financial adjustments in the General Insurance business in Germany, have been communicated to the Board and either have been or are being addressed by the Group.

The operations relating to the long term alliance with Banco Santander entered into in 2011 are progressively adopting the Zurich Risk Management framework and continue to leverage their existing internal control system.

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.

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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 2012, 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, is aligned with our risk management principles and has an orientation towards the long-term for Key Risk Takers.

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2012 Remuneration summary

The following summary provides an overview of the most important aspects of Zurich's remuneration in 2012.

Remuneration governance and philosophy

The Board of Directors ("Board") 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 for the Directors, the Chief Executive Officer (CEO) and the other members of the Group Executive Committee (GEC). It also assesses individual and business performance as it relates to incentive compensation and proposes the overall expenditure on variable pay.

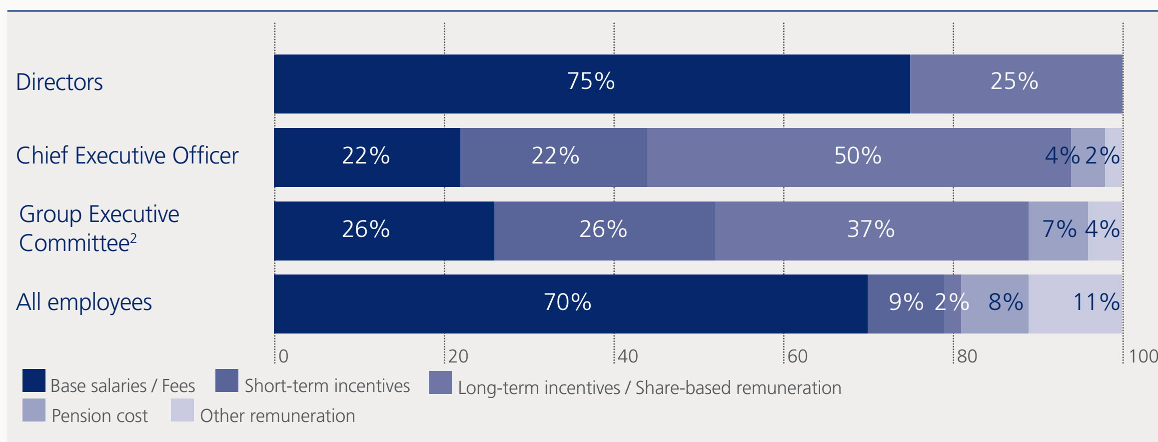
Zurich operates a balanced and effectively managed remuneration system which is aligned with risk-considerations and provides for competitive total remuneration opportunities that attract, retain, motivate and reward employees to deliver outstanding performance. Total remuneration for an individual employee 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 and take into account the internal structures. Depending on the role, the relevant market can be global, regional or local and will reflect practices in either the insurance, the financial services or the general industry.

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 longer term sustainable performance for the most senior employees of the Group, including those positions considered as key risk taker positions ("Key Risk Takers", "KRT"). This ensures that for KRTs a significant portion of the variable pay is deferred.

2012 Remuneration structure and weighting of elements[1]



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

2012 Remuneration

For 2012 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. For the Board no changes were made to the fee structure in 2012 and no changes will be implemented in 2013. Remuneration changes for members of the GEC in 2012, where applicable, were focused on increasing the long-term part of variable remuneration, to achieve at least 60 percent of the variable remuneration as deferred and subject to long-term performance conditions. Balancing the overall structure of remuneration with company performance, market, risk and regulatory considerations was also important for employee remuneration decisions.

Remuneration report *continued*

For 2012, the remuneration highlights were as follows:

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 2012[4]	Total remuneration 2011[4]
Directors	3.4	–	1.2	–	4.6	4.7
Group Executive Committee	12.0	12.3	16.8	5.3	46.4	50.3
All employees	4,036	465	131	1,114	5,746	5,656

[1] For all employees equals the cash incentives earned for the year.
[2] Includes the fees allocated as sales 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 2012 and 2011:

Key financial figures

in USD million, for the year ended December 31	2012	2011[1]
Gross written premiums and fees[2]	56,823	52,967
Business operating profit	4,075	4,243
Net income attributable to shareholders	3,878	3,750
Shareholders' equity	34,494	31,484
Return on common shareholders' equity	11.8%	11.9%
Dividends to shareholders[3]	2,763	2,706
Total variable remuneration pool for all employees gross before tax	608	618
– as a percentage of gross written premiums and fees	1%	1%
– as a percentage of shareholders' equity	2%	2%

[1] December 31, 2011 has been restated as set out in note 1 of the Consolidated financial statements.
[2] Consists of USD 53,977 gross written premiums and policy fees as well as USD 2,846 Farmers management fees and other related revenues.
[3] Dividend at transaction day exchange rate in 2012, respectively 2011.

As can be seen from these metrics, relative to Zurich's overall revenues and capital position, expenditure on variable remuneration is relatively small. Among other factors, in determining the amount of the total variable remuneration pool (please refer to pages 61 and 79) for all employees, the Board also considers the long-term economic performance of the Group. In this respect, the Group has generated economic profit over the long-term which exceeds the actual expenditure on variable pay. For 2012, the Group Short-Term Incentive Plan (Group STIP) overall expenditure resulted in 91 percent of target and the Group Long-Term Incentive Plan (Group LTIP) vesting level for the three years 2010 to 2012 was set at 97 percent of target.

To further align their interests with those of shareholders, the Board and the GEC build their ownership position in the company. As of December 31, 2012, Directors held 65,620 shares and members of the GEC held 118,899 shares and 439,520 options. Share ownership guidelines are in place and these are discussed further on page 62. To meet the share obligations under the share-based compensation plans, Zurich issued 914,301 new shares in 2012, and 798,926 new shares in 2011. Further details on the dilution impact of the share-based compensation plans are set out on page 60.

Summary of further key remuneration aspects in 2012

In addition to the remuneration context and outcomes described, further key aspects for 2012 are outlined below:

- The remuneration system as set out in the Remuneration report for 2011 was subject to a non-binding advisory shareholder vote at the Annual General Meeting on March 29, 2012 with 84.8 percent votes in favor.
- Following the retirement of Mr. Manfred Gentz and Mr. Vernon Sankey in March 2012, the Annual General Meeting approved the election of Ms. Alison Carnwath and Mr. Rafael del Pino to the Board. The two new members replaced the leaving members and joined Mr. Josef Ackermann and Mr. Thomas Escher on the Remuneration Committee. Mr. Thomas Escher was appointed as the new Chairman of the Remuneration Committee in 2012.
- The Committee reviewed the performance measurements under the short- and long-term incentive plans for 2012.
- With regard to the KRT positions, the criteria and processes used for the identification and performance assessment of those positions were reviewed and improved. In particular, additional processes were implemented to include risk-based factors in the performance assessment of KRTs. The Group has expanded the number of KRT positions.

2012 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 for Corporate Governance ("Swiss Code of Best Practice"), as amended with effect from July 1, 2009 and October 15, 2007, respectively. Also included is all the information as 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. The members of the Board of Zurich Insurance Group Ltd are all independent non-executives, therefore the information has been presented with the complete remuneration details of the Board contained in one section, those of the GEC shown in the next section, and then by a section including the information required 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 Insurance Group 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 is responsible for the design and implementation of Zurich's remuneration principles and remuneration rules (together the "Remuneration Rules"). To support the Board 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. On an annual basis the Remuneration Committee evaluates the remuneration architecture and the Remuneration Rules and proposes to the Board any amendments to them, if appropriate.

During 2012, the Board 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 2012. Overall the Board 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 governance, plan design and disclosure.

In 2012, a number of actions were implemented (which will continue going forward):

- 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.

- A further meeting took place between the Remuneration Committee and the Governance and Nominations Committee to discuss potential implications of the "Minder Initiative" and the "Indirect Counterproposal".

- The remuneration of the control functions continues to be structured so as 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.

- Long-term incentive grants were made solely in the form of performance shares. Options were discontinued as of 2011 and 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. This recognizes market trends and the Board is of the opinion that performance shares best align the ultimate rewards to individuals with actual performance achievements.

Remuneration report *continued*

- During the annual process to help align remuneration with the Group's risk-taking capacity, 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. 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 for final approval.

- With regard to the operational implementation of the remuneration architecture across the Group, Group Audit is carrying out a thorough assessment including a review of the implementation of Zurich's Remuneration Rules.

- In order to further enhance transparency, additional information regarding the share ownership guidelines for the Board and for members of the Group Executive Committee is being disclosed. This is set out on page 62.

- Further, information is also provided on the share dilution impact arising from the issuance of shares to meet the obligations under the Group's share-based compensations plans. Zurich meets the share obligations arising from compensation plans by either issuing new shares from the contingent capital that has been authorized by the shareholders or by using Zurich shares purchased in the market.

  In 2012, the company issued 914,301 shares (0.62 percent of capital based on 147,385,822 registered shares eligible for dividends as of December 31, 2011) to meet the share obligations arising from the vesting of shares and the exercise of share options during the year (in 2011, 798,926 shares or 0.54 percent of capital based on 146,586,896 registered shares eligible for dividends as of December 31, 2010).

  As of December 31, 2012, the total number of unvested target shares was 886,483 which are made up from the grants made in 2010, 2011 and 2012. If these unvested shares vest at the 100 percent target level over the period 2013 to 2015, this would require the issuance of 0.60 percent of the share capital based on 147,385,822 registered shares eligible for dividends as of December 31, 2011.

  As of December 31, 2012, the total number of vested but unexercised share options was 2,261,239. In addition, there were 243,345 unvested target options which are due to vest in April 2013. The exercise prices for these options range from CHF 198.10 to CHF 355.75. If all mentioned vested and unvested options were to be exercised in the future, the number of shares required represents 1.70 percent of the share capital which is based on 147,385,822 registered shares eligible for dividends as of December 31, 2011. If only those options in the money at December 31, 2012 (share price CHF 243.30) were exercised the number of shares required would be 255,683 or 0.17 percent of the share capital based on 147,385,822 registered shares eligible for dividends as of December 31, 2011.

- In the review of performance measures, it was decided that business performance for the Group STIP in General Insurance would be better assessed by normalizing the impact of catastrophe losses. Farmers also made a change whereby the STIP assessment now takes into account the business performance of the Farmers Exchanges[1]. With regard to the Group LTIP, it was decided to keep the underlying performance matrix which covers the relative total shareholder return (TSR[2]) and absolute return on common shareholders' equity (ROE) achievements, but a right was introduced for the Board to reflect the Group's performance achievements in the light of the economic environment over the three year performance period. An adjustment of +/–25 percent may be applied to the calculated level with discretionary adjustments being positive or negative depending on extraordinary market circumstances for example with regard to interest rates, exchange rates etc.

As part of a remuneration review in 2012, all KRT positions for the Group were reviewed. These positions cover the three business segments of General Insurance, Global Life and Farmers as well as Group Operations and all other principle functions. In 2012, the processes and criteria of identifying KRT positions have 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. In particular, Group Risk Management, together with other control and assurance functions, provides risk and compliance information about each KRT as part

[1] For a definition of the "Farmers Exchanges" see page 19 in the Corporate governance report.
[2] Total Shareholder Return (TSR) is the theoretical growth in value of a shareholding assuming that dividends and any capital distributions are reinvested to purchase additional units of an equity at the closing price applicable on the ex-dividend/capital distribution date.

of the annual individual performance assessment. The remuneration arrangements for KRTs include both short-term 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.

In the meetings of the Remuneration Committee and the Board 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 any members who also serve on one or more boards of the Group's subsidiaries. See page 26 in the Corporate governance report for further details of the Remuneration Committee's 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 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 79 and 80.

Benchmark studies and external advisors to the Board

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 reviewing practices within the large Swiss Market Index (SMI) companies in Switzerland or 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 Remuneration Committee reviews this peer group regularly.

Remuneration report *continued*

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 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). The Remuneration Committee reviews the mandates and fees, and evaluates ongoing performance. Both, Meridian and Aon Hewitt provide advice to the Board, with the lead consultant 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 and the GEC with those of shareholders, Directors and members of the GEC build their ownership position in the company and have to meet a certain ownership requirement. Share ownership guidelines for members of the Board have been established at the level of 1 times the basic annual fee. For members of the GEC, share ownership guidelines with regard to vested awards have been established at the level of 5 times base salary for the CEO and of 2.5 times base salary for other members of the GEC. Directors achieve this requirement through part of their fee payment being made in three-year sales restricted shares and market purchases. Members of the GEC achieve this through their participation in long-term incentive plans and market purchases. Directors, the CEO and other members of the GEC 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 the opportunity to express their views on the remuneration architecture through an advisory vote at the Annual General Meeting to be held on April 4, 2013. As the ultimate decision on remuneration is within the powers of the Board, such a vote is non-binding in nature.

Remuneration philosophy

Directors
Recognizing that Zurich is a global insurance company, 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 69, fee levels are established for each member of the Board of Zurich Insurance Group Ltd. Fees are paid in cash and in shares with approximately one-third of the basic fee being provided in three-year sales restricted shares of Zurich Insurance Group 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 including the CEO, 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-term 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 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 KRTs 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-term 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.

Remuneration report *continued*

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 57 and 61, target opportunities are benchmarked to median levels in clearly defined markets. The remuneration mix between base salary and variable pay is also aligned with local market practices and internal structures. Zurich is transparent in the communication of how the reward structure and the processes used for decision making are defined. Total remuneration includes the following elements:

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-term 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: the Leadership Team; each business segment; operations; and the functional areas and 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 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.
- The relevant business performance is assessed against the business plan that is approved by the Board 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 Leadership Team, and the relevant Business Operating Profit (BOP) for the business segments; for Farmers the business performance of the Farmers Exchanges is now also taken into account. Depending on actual achievements, the Group STIP funding pools can vary between 0 percent and 175 percent of the target pools. If the business performance is on target, the potential available Group STIP funding as percent of target awards is around 100 percent. However, if business performance is below target, the potential available Group STIP funding as a percent of target awards is normally below 100 percent and can be zero. In assessing the business results, the financial performance of the area and 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 or external rules or requirements by an individual are taken into account in the individual performance rating. The individual performance achievements are assessed through the Group's performance management process. This 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. This ensures that there is clear differentiation both in ratings and in STIP payments, based on personal performance.
- Depending on the size of the Group 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. The funding is fully based on the business performance and given that the funding is available the payout is then based on the individual performance.

Short-term incentives are delivered primarily through Group STIP. In addition there are some 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 Group STIP, may be utilized for other employees.

In recent years, more than 10,000 employees have been transferred from local incentive plans to Group STIP. For 2013 and 2014, it is foreseen to continuously analyze the possibility to transfer employees from local incentive plans to Group STIP taking into account the legal and market environment.

Remuneration report *continued*

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 KRTs. 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.

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 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. 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 2012

	Year of vesting and year when the sales restrictions on 50% of any vested share award lapses					
	2013	2014	2015	2016	2017	2018
Tranche 1 from 2012 grant	Vesting assessment			Sales restrictions lapse		
Tranche 2 from 2012 grant		Vesting assessment			Sales restrictions lapse	
Tranche 3 from 2012 grant			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		
2013	**2014**	**2015**
Tranche 1 from 2012 grant	Tranche 1 from 2013 grant	Tranche 1 from 2014 grant
Tranche 2 from 2011 grant	Tranche 2 from 2012 grant	Tranche 2 from 2013 grant
Tranche 3 from 2010 grant	Tranche 3 from 2011 grant	Tranche 3 from 2012 grant

- 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 met, then the Group performance conditions are taken equally into account. 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 for final approval. The vesting matrix is as follows:

Governance

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 second quartile and an average ROE of 14 percent over the three year period, the vesting percentage would be 117 percent of the target grant.

The underlying performance matrix was reviewed by the Board and it was decided not to make any changes. The Board may exercise discretion in order to take the current environment into account when assessing the overall levels of vesting. Adjustments of +/–25 percent to the calculated level may be applied and can be positive or negative depending on extraordinary market circumstances for example with regard to interest rates, exchange rates etc. For the performance period 2010 to 2012, the Board has decided not to exercise any discretion.

Remuneration report *continued*

The right to modify individual awards to reflect specific 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. 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.

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.

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 and the Group Executive Committee

As of December 31, 2012, all of the Directors of Zurich Insurance Group 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 partly by allocation of three-year sales restricted Zurich Insurance Group Ltd shares, for their memberships of the Boards of Zurich Insurance Group 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.

In 2012, no changes were made to the fee structure established in 2011. The Board has also decided not to make any changes in 2013.

Except for the Chairman and Vice Chairman, Directors are remunerated with an annual basic fee of CHF 240,000 in 2012 (CHF 240,000 in 2011). One-third of this annual basic fee, i.e. CHF 80,000 in 2012 (CHF 80,000 in 2011), is allocated to sales restricted Zurich Insurance Group 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 2012 (CHF 50,000 in 2011) 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 2012 (CHF 30,000 for 2011) and the chair of the Audit Committee receives an additional CHF 10,000 in 2012 (CHF 10,000 in 2011). The committees on which the Directors serve are set out in the Corporate governance report on page 26.

Where a Director is also a member of one or more subsidiary boards of Zurich Insurance Group Ltd, the Director is entitled to an additional fee of CHF 50,000 in 2012 (CHF 50,000 in 2011) per annum plus CHF 10,000 in 2012 (CHF 10,000 in 2011) per annum if he or she also chairs an audit committee of such a board.

The annual basic fee for the Vice Chairman during 2012 was CHF 375,000 (CHF 375,000 in 2011), of which an amount of CHF 125,000 in 2012 (CHF 125,000 in 2011) is allocated to sales restricted Zurich Insurance Group Ltd shares. The annual basic fee for the Chairman of the Board of Zurich Insurance Group Ltd during 2012 was CHF 1,000,000 (CHF 1,000,000 in 2011) and one-third of the total amount, i.e. CHF 333,500 in 2012 (CHF 333,500 in 2011) is allocated to sales restricted Zurich Insurance Group Ltd shares. Neither the Chairman nor the Vice Chairman receives any additional fees for their committee work.

Based on this structure, the total aggregate fees allocated to the Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd for the year ended December 31, 2012, amounted to CHF 4,244,246. This included CHF 3,166,298 in cash and a value at the allocation date of CHF 1,077,948 in three-year sales restricted shares. The share price at the allocation date was CHF 207.10. The corresponding amount for 2011 was CHF 4,257,500, which comprised CHF 3,079,000 in cash and a value at the allocation date of CHF 1,178,500 in three-year sales restricted shares. The share price at the grant date in 2011 was CHF 218.90. The Directors' fees are not pensionable.

The following tables set out the fees paid to the Directors for 2012 and 2011 in CHF.

Directors' fees 2012

in CHF	2012[1]						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fees[7]	Total fees	of which paid in cash[5]	of which allocated in shares[4, 5]
J. Ackermann, Chairman[6,9]	846,198	–	–	–	846,198	563,399	282,799
M. Gentz, Chairman[6,9]	243,170	–	–	–	243,170	243,170	n/a
T. de Swaan, Vice-Chairman[6,9]	342,172	12,159	7,295	85,000	446,626	332,569	114,057
S. Bies, Member	240,000	50,000	–	50,000	340,000	260,000	80,000
A. Carnwath, Member[9]	181,202	37,705	–	–	218,907	158,361	60,546
V.L.L. Chu, Member	240,000	50,000	–	–	290,000	210,000	80,000
R. del Pino, Member[9]	181,202	37,705	–	–	218,907	158,361	60,546
Th. Escher, Member	240,000	50,000	22,623	–	312,623	232,623	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	380,000	300,000	80,000
V.L. Sankey, Member[9]	58,361	12,159	7,295	–	77,815	77,815	n/a
R. Watter, Member	240,000	50,000	–	–	290,000	210,000	80,000
Total in CHF[8]	**3,532,305**	**449,728**	**77,213**	**185,000**	**4,244,246**	**3,166,298**	**1,077,948**

Directors' fees 2011

in CHF	2011[1]						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fees[7]	Total fees	of which paid in cash[5]	of which allocated in shares[4, 10]
M. Gentz, Chairman[6]	1,000,000	–	–	–	1,000,000	666,500	333,500
J. Ackermann, Vice-Chairman[6]	375,000	–	–	–	375,000	250,000	125,000
S. Bies, Member	240,000	50,000	–	50,000	340,000	260,000	80,000
V.L.L. 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	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	392,500	312,500	80,000
R. Watter, Member	240,000	50,000	–	–	290,000	210,000	80,000
Total in CHF[8]	**3,535,000**	**450,000**	**100,000**	**172,500**	**4,257,500**	**3,079,000**	**1,178,500**

[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 (CHF 50,000 in 2011) 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 26.
[3] Committee chairs receive an annual fee of CHF 30,000 (CHF 30,000 in 2011) and the chair of the Audit Committee receives an additional CHF 10,000 (CHF 10,000 in 2011). The committees on which the Directors serve and the chairs are set out in the Corporate governance report on page 26.
[4] The shares allocated to the Directors are sales-restricted for three years.
[5] As of June 16, 2012, Mr. Ackermann was allocated 1,365 shares, Mr. de Swaan was allocated 550 shares, and the other Board members were allocated 386 shares based on a full year's membership. The share price (CHF 207.10) as of June 16, 2012 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.
[6] Neither the Chairman nor the Vice-Chairman receive any additional fees for their committee work.
[7] In addition to the fees received as Directors of Zurich Insurance Company Ltd, Mrs. Bies, Mr. Nicolaisen and Mr. de Swaan earned fees for their board memberships of the following of Zurich Insurance Group companies:
– In both 2012 and 2011, Mrs. Bies and Mr. Nicolaisen earned CHF 50,000 for their membership of the board of Zurich Holding Company of America (ZHCA).
– In 2012, Mr. de Swaan earned CHF 75,000 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 2011, Mr. de Swaan earned CHF 72,500 in respect for his work on the two boards.
[8] In line with applicable laws, Zurich paid the company-related portion of contributions to social security systems, which amounted to CHF 160,340 in 2012. The corresponding contributions amounted to CHF 142,832 in 2011. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above.
[9] At the Annual General Meeting on March 29, 2012 Mr. Gentz and Mr. Sankey retired from the Board and Ms. Carnwath and Mr. del Pino were elected to the Board. Mr. Ackermann was appointed Chairman and Mr. de Swaan Vice-Chairman of the Board of Directors.
[10] 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.

Remuneration report *continued*

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

At the Annual General Meeting on March 29, 2012, the terms of office of Mr. Gentz and of Mr. Sankey expired and they did not stand for re-election. No termination payments (i.e. "golden parachutes") were made and no other benefits such as waiver of lock-up periods for equities, shorter vesting periods or additional contributions to occupational pension schemes were provided.

Special payments for new members of the Board

At the Annual General Meeting on March 29, 2012, Ms. Carnwath and Mr. del Pino were elected new members of the Board. No special payments (i.e. "golden handshakes") or other benefits were provided.

Remuneration for former Directors

No benefits (or waiver of claims) have been provided to former Directors during the year 2012, nor were any provided during the year 2011.

Share plans for Directors

The members of the Board of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd do not participate in any of the share-based incentive plans established for executive management. However, part of the fees of the Directors of Zurich Insurance Group Ltd is 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 Insurance Group Ltd are shown in the following table. All interests shown are beneficial and include sales restricted shares allocated to the Directors as part of their fee and shares held by parties related to the Directors.

Directors' shareholdings

Number of Zurich Insurance Group Ltd shares[1], as of December 31	Ownership of shares	
	2012	2011
J. Ackermann, Chairman	23,271	806
M. Gentz, Chairman	n/a	6,868
T. de Swaan, Vice Chairman	2,079	1,529
S. Bies, Member	1,632	1,246
A. Carnwath, Member	292	n/a
V.L.L. Chu, Member	1,632	1,246
R. del Pino, Member	292	n/a
Th. Escher, Member	9,470	7,084
F. Kindle, Member	16,915	16,529
A. Meyer, Member	3,239	2,853
D. Nicolaisen, Member	1,915	1,529
V.L. Sankey, Member	n/a	2,699
R. Watter, Member	4,883	4,497
Total	**65,620**	**46,886**

[1] None of the Directors together with parties related to them held more than 0.5 percent of the voting rights of Zurich Insurance Group Ltd shares as of December 31, 2012 or 2011, respectively.

Share options held by Directors

The members of the Boards of Zurich Insurance Group 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 Insurance Group Ltd shares as of December 31, 2012 or 2011.

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 as 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, 2012 and 2011. 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, 2012 or 2011.

Personal loans for former Directors

As of December 31, 2012, and 2011, 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 Board during the years 2012 and 2011 nor had any related party of the Directors or of former members of the Board any outstanding loans, advances or credits as of December 31, 2012 and 2011.

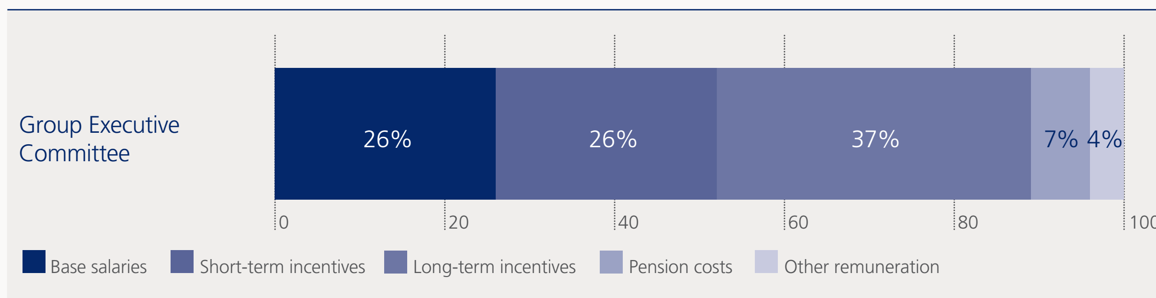
Group Executive Committee

Remuneration of the Group Executive Committee

The total remuneration of the members of the GEC for 2012 comprised the value of cash remuneration (including short-term cash incentives), the target equity grants made under the Group's LTIP in 2012, pensions and other remuneration.

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

The distribution of the total remuneration in 2012 between the individual remuneration elements is set out in the following chart and is based on 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 2012 was USD 46.4 million, a change of USD 3.9 million compared with USD 50.3 million earned in 2011 calculated on the same basis. The decrease is due to changes in the membership of the GEC and to lower expenditure on cash incentive awards earned for the year. In Swiss francs the total value declined from CHF 45.4 million to CHF 42.6 million.

The total value for 2012 comprises the following elements (the comparative figures for 2011 are shown in the table on total remuneration for all members of the GEC):

Remuneration report *continued*

Base salaries and annual cash incentives paid for 2012

The total amount of base salaries and annual cash incentive awards earned under the Group STIP for 2012 was USD 24.3 million. This comprised USD 12.0 million in base salaries and USD 12.3 million in annual cash incentive awards to be paid in 2013 for 2012 performance. As set out on page 65 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 2012 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 Group STIP for 2012 vary between 75 percent and 100 percent of the base salary. The maximum award for all members of the GEC, including the CEO, is 200 percent of the target level.

Equity grants made to members of the Group Executive Committee under the Group LTIP in 2012

As described above, in 2012 members of the GEC received an annual grant of performance shares under the Group LTIP. 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 2012 was set between 100 percent and 225 percent of each member's base salary.

As in previous years, the target grants for 2012 were made on the third working day in April, i.e. on April 3, 2012. 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.

The vesting of the grants and the performance criteria are set out on pages 66 to 67. The following equity grants under Group LTIP were made in 2012:

Performance share grants

The total number of target performance share grants made to members of the GEC during 2012 was 67,296. This compares with an equivalent figure of 63,787 made for 2011. The value of the target performance share grants made on April 3, 2012 to members of the GEC was USD 16.8 million at the date of grant based on the assumption of 100 percent vesting, a share price of CHF 225.90 on the day prior to the grant and a foreign exchange rate of 1 CHF = 0.90315 USD. For those members of the GEC who joined during 2012, the number and the value of the share grants is based on the grant for 2012 pro-rated for the time spent as a member of the GEC during the year.

The number of share awards that vested in 2012 to members of the GEC serving in 2012 from the performance share grants made in 2009, 2010 and 2011 was 30,526. This represented a basic vesting level of 110 percent of target given the actual ROE and TSR performance achievements relating to the LTIP vesting matrix on page 67. 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 2012 and 2011.

Share option grants

The number of share option awards that vested in 2012 to members of the GEC serving in 2012 from the share option grants made in 2009 and 2010 was 91,747. This represented a basic vesting level of 110 percent of target given the actual ROE and TSR performance achievements.

Value of pension benefits accruing during 2012

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 members of the GEC 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 2012, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles, was USD 3.3 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 2012

Members of the GEC received other remuneration in 2012 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 2012 was USD 2.0 million. Benefits-in-kind have been valued using market rates.

Summary of total remuneration for the Group Executive Committee

By reference to the above figures, the total remuneration of the members of the GEC, comprising cash compensation, the value of target equity grants for 2012, pensions and the value of other remuneration was USD 46.4 million, for 2011 it was USD 50.3 million, divided as follows:

All GEC members (incl. the highest paid)

in USD million, for the year ended December 31	**2012[1,2]**	2011[1,3]
Base salaries	12.0	12.7
Cash incentive awards earned for the year	12.3	14.0
Value of target performance share grants[4]	16.8	16.8
Service costs for pension benefits[5]	3.3	3.4
Value of other remuneration[6]	2.0	3.4
Total in USD[7]	**46.4**	**50.3**
Total in CHF[8]	**42.6**	**45.4**

[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 13 GEC members, of whom 9 served during the full year 2012.
[3] On the basis of 12 GEC members, of whom 9 served during the full year 2011.
[4] The share grants will vest in the future according to achievement of defined performance conditions. The value of the shares assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 225.90 for 2012 and CHF 243.60 for 2011).
[5] The amounts reflect the total value of pension benefits accruing to members of the GEC during 2012 and 2011, 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.
[6] Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under employment contracts. Benefits-in-kind have been valued using market rates.
[7] In line with applicable laws where the executives are employed, Zurich paid the company-related portion of contributions to social security systems, which amounted to USD 1.7 million in 2012 and USD 2.2 million in 2011. 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.
[8] The amounts have been translated to Swiss francs at the relevant exchange rates throughout the year and the cash incentive to be paid in 2013 has been translated at the year-end rate in 2012.

Based on these figures, the value of the total remuneration for all members of the GEC comprises 37 percent (39 percent in 2011) in fixed remuneration elements (comprising base salaries, service costs for pension benefits and other remuneration) and 63 percent (61 percent in 2011) in performance related components (comprising the cash incentive awards under the Group STIP together with the value of the target performance share grants).

Remuneration report *continued*

Member of the Group Executive Committee with the highest total remuneration

The highest paid remuneration for the GEC members was CHF 7.6 million for Mr. Senn, the Group's CEO. This amount reflects his 2012 base salary, the cash incentive earned for 2012, the value of the target performance shares granted in 2012, the value of pension benefits and other remuneration. This compares with an amount of CHF 7.9 million in 2011. All Mr. Senn's remuneration is paid in Swiss francs.

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

Highest paid executive, Chief Executive Officer, Martin Senn in 2012 and 2011

in CHF millions, for the year ended December 31	**2012**[1]	2011[1]
Base salary	1.60	1.60
Cash incentive awards earned for the year	2.00	2.40
Value of target performance share grants[2]	3.60	3.60
Service costs for pension benefits[3]	0.30	0.20
Value of other remuneration[4]	0.10	0.10
Total in CHF	**7.60**	**7.90**
Total in USD[5]	**8.30**	**8.60**

[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 share grants will vest in the future according to the achievement of defined performance conditions. The value of the shares assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 225.90 for 2012 and CHF 243.60 for 2011).
[3] The amounts reflect the total value of pension benefits, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service costs do not include the interest costs on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
[4] 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.
[5] 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 2013 has been translated at the year-end rate in 2012.

Special payments for members of the Group Executive Committee who took on their functions during the year

During 2012, three members were appointed to the GEC. No special payments (i.e. "golden handshakes") or other benefits were provided to the new members.

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

During 2012, two members of the GEC left the Group. Agreements with the departing members provided remuneration in accordance with their employment contracts. No termination payments (i.e. "golden parachutes") were made and no other benefits such as agreements concerning special notice periods or longer term contracts (exceeding 12 months in duration), waiver of lock-up periods for equities, shorter vesting periods or additional contributions to occupational pension schemes were provided.

Remuneration for former members of the Group Executive Committee

As described in previous reports a member who retired at the end of 2010, after long service with the Group, was retained as a consultant in 2011 and 2012. Recognizing the prior contractual obligations, adherence to post-employment obligations and the provision of services in 2012 the member received remuneration in the amount of USD 2.4 million during 2012. No other former members of the GEC received remuneration in 2012.

Summary of total outstanding share commitments for members of the Group Executive Committee under the Group LTIP

Share grants

Performance share grants

As of December 31, 2012, the total number of target performance share grants outstanding for members of the GEC under the Group LTIP was 98,257 (77,273 as of December 31, 2011). A summary of the outstanding grants as of December 31, 2012 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
2012–2014	59,629	225.90	2013–2015
2011–2013	31,972	243.60	2013–2014
2010–2012	6,656	259.90	2013

Within the context of the Group LTIP, these performance share grants are considered for vesting in one-third installments during the three years after the grant and further half of the vested shares are sales restricted for a three year period. The actual level of vesting is determined in accordance with the remuneration principles set out above on page 63 and the LTIP vesting matrix as described on page 67.

Restricted share grants

There were no restricted shares outstanding as of December 31, 2012 for members of the GEC (494 restricted shares were outstanding at the end of 2011).

Share option grants

Under the share option program for senior management, the Group issued share options in the past to individuals within defined rules. From 2011, share option grants were no longer made.

In connection with the re-design of the Group LTIP in 2003, option grants were made in each year on the third working day in April. Further, the exercise price for the options granted in the past was 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 Group LTIP vesting matrix as described on page 67.

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.

Remuneration report *continued*

Under the share option program, the total number of shares under option for the members of the GEC as of December 31, 2012, and 2011, respectively, is set out in the tables below.

Summary of outstanding options, 2012

as of December 31, 2012

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	145,649	59,453	205,102	259.90	2017
2009	82,728	–	82,728	198.10	2016
2008	79,893	–	79,893	336.50	2015
2007	80,506	–	80,506	355.75	2014
2006	50,744	–	50,744	308.00	2013
Total	**439,520**	**59,453**	**498,973**		

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**		

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

Share and share option holdings of members of the Group Executive Committee

The following table sets out the actual share and share option holdings of the members of the GEC as of December 31, 2012 and 2011. 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 LTIP. 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 members of the GEC.

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

Number of vested shares and vested share options, as of December 31	2012		2011	
	Shares	**Vested options[2]**	Shares	Vested options[2]
M. Senn, Chief Executive Officer	29,719	103,447	20,936	81,362
J. Dailey, CEO of Farmers Group, Inc.[3]	2,373	14,987	n/a	n/a
M. Foley, Chief Executive Officer North America Commercial and Regional Chairman of the Americas	9,306	52,710	9,726	41,348
M. Greco, Chief Executive Officer General Insurance[4]	n/a	n/a	7,847	36,885
Y. Hausmann, Group General Counsel[5]	3,728	7,301	n/a	n/a
K. Hogan, Chief Executive Officer Global Life	3,080	13,032	1,466	8,185
M. Kerner, CEO General Insurance[6]	8,469	24,432	n/a	n/a
A. Lehmann, Chief Risk Officer and Regional Chairman of Europe	23,128	84,640	18,671	86,713
C. Orator, Chief Administrative Officer[7]	n/a	n/a	5,868	12,987
C. Reyes, Chief Investment Officer	4,823	22,012	2,555	15,123
G. Riddell, Regional Chairman of Asia-Pacific & Middle East	25,002	73,136	22,182	62,685
K. Terryn, Group Head of Operations	4,324	20,540	2,239	16,391
P. Wauthier, Chief Financial Officer	4,947	23,283	3,936	25,061
Total	**118,899**	**439,520**	**95,426**	**386,740**

[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, 2012 or 2011, 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. Dailey was appointed to the GEC as of January 1, 2012.
[4] Mr. Greco left the function on June 4, 2012 and his employment contract terminated on July 31, 2012.
[5] Mr. Hausmann was appointed to the GEC as of July 1, 2012.
[6] Mr. Kerner was appointed to the GEC as of September 1, 2012.
[7] Mr. Orator left the function on June 30, 2012 and his employment contract terminated on December 31, 2012.

The following tables show how the totals of the vested share options owned by members of the GEC are distributed according to the grants identified in the tables "Summary of outstanding options" as of December 31, 2012 and 2011, respectively.

Distribution of vested share options 2012

Number of vested share options as of December 31, 2012	Year of grant					Total
	2010	**2009**	**2008**	**2007**	**2006**	
M. Senn	39,316	16,035	17,094	19,200	11,802	103,447
J. Dailey[1]	6,613	3,284	5,090	n/a	n/a	14,987
M. Foley	16,907	13,640	11,568	10,595	n/a	52,710
Y. Hausmann[2]	7,301	n/a	n/a	n/a	n/a	7,301
K. Hogan	7,212	5,820	n/a	n/a	n/a	13,032
M. Kerner[3]	5,471	4,414	4,210	5,327	5,010	24,432
A. Lehmann	21,063	16,035	17,094	17,028	13,420	84,640
C. Reyes	14,041	2,115	2,256	1,950	1,650	22,012
G. Riddell	15,734	12,255	14,330	18,623	12,194	73,136
K. Terryn	6,290	4,789	3,624	3,108	2,729	20,540
P. Wauthier	5,701	4,341	4,627	4,675	3,939	23,283
Total	**145,649**	**82,728**	**79,893**	**80,506**	**50,744**	**439,520**

[1] Mr. Dailey was appointed to the GEC as of January 1, 2012.
[2] Mr. Hausmann was appointed to the GEC as of July 1, 2012.
[3] Mr. Kerner was appointed to the GEC as of September 1, 2012.

Remuneration report *continued*

Distribution of vested share options 2011

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	n/a	81,362
M. Foley	9,316	9,869	11,568	10,595	n/a	n/a	41,348
M. Greco	11,606	11,603	13,676	n/a	n/a	n/a	36,885
K. Hogan	3,974	4,211	n/a	n/a	n/a	n/a	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	n/a	12,987
C. Reyes	7,737	1,530	2,256	1,950	1,650	n/a	15,123
G. Riddell	8,670	8,868	14,330	18,623	12,194	n/a	62,685
K. Terryn	3,465	3,465	3,624	3,108	2,729	n/a	16,391
P. Wauthier[1]	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. Wauthier was appointed to the GEC as of October 1, 2011.

Trading plans

To facilitate the sale of shares and the exercise of options for the members of the GEC, the Board 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 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. As of December 31, 2012, there were no trading plans in place. Further, no trading plans were entered into in 2012 and 2011 and the one trading plan that was entered into in 2010 ended in 2011.

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 2012 and 2011 other than as set out above.

Personal loans for members of the Group Executive Committee

As of December 31, 2012 and 2011, there were no loans, advances or credits outstanding for members of the GEC.

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, 2012 and 2011, no former member of the GEC had any outstanding loans, advances or credits.

Related parties to members or 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 years 2012 and 2011. Neither had any related party of GEC members or of former members of the GEC outstanding loans, advances or credits as of December 31, 2012 and 2011.

All employees

The following section includes information regarding the total remuneration earned by employees for the financial year 2012 across the Group, including remuneration for members of the GEC. 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 52,722 and 52,648 employees (full-time equivalents) as of December 31, 2012 and 2011, 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	2012	2011
Base salaries	4,036	4,025
Value of other remuneration[1]	628	578
Service costs for pension benefits[2]	474	451
Total fixed remuneration	**5,138**	**5,054**

[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 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 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 sign-on incentive payments committed in the performance year. These payments were committed to people whose hire date was in 2012.
- The total amount of severance payments committed in the performance year. These payments were committed to people whose termination date was in 2012.

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 2012 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.

Remuneration report *continued*

In determining the amount of the Total Variable Remuneration Pool, the Board considers the long-term economic performance of the Group as well as other relevant factors. 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. In this respect, the Group has generated economic profit over the long-term which exceeds the actual expenditure on variable pay.

Variable remuneration

in USD million, for the year ended December 31	2012	2011
Cash incentive awards earned for the year[1]	474	482
Value of target performance share grants made in the year[2,3]	134	136
Total Variable Remuneration Pool	**608**	**618**

[1] Includes sign-on and severance payments in cash.
[2] Includes sign-on payments in shares.
[3] The share grants will vest in the future according to achievement of defined performance conditions. The value of the shares assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 225.90 for 2012 and CHF 243.60 for 2011). The charges in the financial statements may be calculated on different vesting basis.

The total number of beneficiaries receiving variable remuneration is approximately 46,000 in 2012 (48,000 in 2011). For 2012, the Group STIP overall expenditure resulted in 91 percent of target and the Group LTIP vesting level for the three years 2010 to 2012 was set at 97 percent of target.

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	2012	2011
Cash – fixed	4,036	4,025
Cash – variable[1]	474	482
Shares[2]	134	136
Other[3]	1,102	1,029
Total remuneration	**5,746**	**5,672**

[1] Includes cash incentive awards, sign-on and severance payments in cash.
[2] Includes performance share grants and sign-on payment in shares.
[3] Includes other remuneration and pension benefits.

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, 2012 and 2011:

Value of outstanding deferred remuneration

in USD million, for the year ended December 31	2012	2011
Unvested performance share grants	225	203
Unvested performance option grants	7	22
Unvested restricted share grants	7	6
Vested but sales restricted shares	140	143
Value of overall outstanding deferred remuneration	**379**	**374**

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 2012 and 2011 from remuneration granted in prior years

Under the Group LTIP, 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 reflected in the consolidated income statement in the year of vesting. For shares and options vesting in 2012 and in 2011, there was no material difference in the actual and estimated amounts.

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 KRTs for the Group, the following sign-on and severance payments were committed to this group of individuals in 2012 and in 2011:

Sign-on and severance payments for Key Risk Takers

in USD million, for the year ended December 31	2012		2011	
	Amount (USD m)	**Number of beneficiaries**	Amount (USD m)	Number of beneficiaries
Sign-on payments paid/number of beneficiaries[1]	3	6	3	7
Severance payments paid/number of beneficiaries[2]	2	5	3	7

[1] "Sign-on payments" are payments (whether paid immediately or over time) that are agreed on the execution of an employment contract.
[2] "Severance payments" are payments that are provided in connection with the termination of an employment relationship. Zurich does not include under the term "severance payments" garden leave or similar payments for employees in jurisdictions where such payments are required by applicable law, or where they are based on contractual notice periods which conform with recognized market practice, or where they are non-contractual but in line with recognized market practice. However, Zurich does include garden leave or similar payments that go beyond recognized market practice, irrespective of whether these are provided pursuant to an agreement or are ex gratia.
[3] "Payments" in this respect include cash, shares, benefits, and incentives foregone with a previous employer or anything else of monetary value.

Group performance review

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Operating and financial review

The Operating and financial review is the management analysis of the business performance of Zurich Insurance Group Ltd (formerly known as Zurich Financial Services Ltd) and its subsidiaries, collectively the Group, for the year ended December 31, 2012 compared with 2011. It also explains key aspects of the Group's financial position as of the end of 2012.

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The information contained within the Operating and financial review is unaudited and presents the consolidated results of the Group for the years ended December 31, 2012 and 2011 and the financial position as of December 31, 2012 and December 31, 2011. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add up to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. This document should be read in conjunction with the Annual Report 2012 of the Group and with its Consolidated financial statements as of December 31, 2012. Certain comparative figures have been restated, as set out in note 1 of the Consolidated financial statements. Details of the financial results from the dates of acquisition to December 31, 2012, for the Latin American insurance operations of Banco Santander S.A. (Zurich Santander) and for other acquisitions and divestments are set out in note 5 of the Consolidated financial statements.

In addition to the figures stated according to the International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP), new business measures and other performance indicators to enhance the understanding of its results. Details of these additional measures are set out in the Glossary These should be viewed as complementary to, and not as substitute to the IFRS figures. For a reconciliation of BOP to net income after income taxes see note 29 of the Consolidated financial statements.

Financial highlights

in USD millions, for the years ended December 31, unless otherwise stated	2012	2011[1]	Change[2]
Business operating profit	**4,075**	4,243	(4%)
Net income attributable to shareholders	**3,878**	3,750	3%
General Insurance gross written premiums and policy fees	**35,610**	34,572	3%
Global Life gross written premiums, policy fees and insurance deposits	**30,259**	27,711	9%
Farmers Management Services management fees and other related revenues	**2,846**	2,767	3%
Farmers Re gross written premiums and policy fees	**4,361**	3,529	24%
General Insurance business operating profit	**2,097**	2,247	(7%)
General Insurance combined ratio	**98.4%**	98.9%	0.5 pts
Global Life business operating profit	**1,338**	1,353	(1%)
Global Life new business annual premium equivalent (APE)	**4,030**[3]	3,992	1%
Global Life new business margin, after tax (as % of APE)	**22.1%**[3]	24.5%	(2.5 pts)
Global Life new business value, after tax	**890**[3]	980	(9%)
Farmers business operating profit	**1,414**	1,486	(5%)
Farmers Management Services gross management result	**1,378**	1,333	3%
Farmers Management Services managed gross earned premium margin	**7.3%**[4]	7.3%	–
Average Group investments	**203,192**	196,788	3%
Net investment result on Group investments	**8,911**	9,367	(5%)
Net investment return on Group investments[5]	**4.4%**	4.8%	(0.4 pts)
Total return on Group investments[5]	**7.0%**	5.3%	1.7 pts
Shareholders' equity	**34,494**	31,484	10%
Swiss Solvency Test capitalization ratio[6]	**178%**	183%	(5 pts)
Diluted earnings per share (in CHF)	**24.66**	22.52	10%
Book value per share (in CHF)	**214.79**	202.17	6%
Return on common shareholders' equity (ROE)	**11.8%**	11.9%	(0.2 pts)
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	**9.3%**	10.2%	(0.9 pts)

[1] December 31, 2011 has been restated as set out in note 1 of the Consolidated financial statements.
[2] Parentheses around numbers represent an adverse variance.
[3] Does not include any contribution from Zurich Santander or from the acquisition of Zurich Insurance Malaysia Berhad (ZIMB).
[4] Calculated based on gross earned premiums of the Farmers Exchanges of USD 18.8 billion, which excludes the return of USD 74 million in premiums as a result of the anticipated settlement of a lawsuit with the State of Texas.
[5] Calculated on average Group investments.
[6] Ratios as of July 1, 2012 and January 1, 2012, respectively, are calculated based on the Group's internal model which is subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The SST Ratio for January 1, 2012 has been restated following FINMA's review of the Annual SST Report.

Operating and financial review *continued*

Performance overview for the year ended December 31, 2012

The Group delivered solid results and generated stable cash flows while maintaining its strong capital position. This enabled the Board of Directors to propose an attractive dividend of CHF 17.00 per share, demonstrating the Group's sustained commitment to shareholder value.

The execution of the Group's strategy and focus on its core insurance business enabled strong growth and improved underlying profitability, which are critical to offset lower investment income due to a persisting low yield environment. Improved underlying profitability was sustained by contributions from Global Life and Farmers, as well as the strong underlying underwriting performance in General Insurance. The overall performance of General Insurance was negatively impacted by above average levels of catastrophe, large and weather-related losses, including Storm Sandy, as well as the extraordinary adverse impact relating to a review in Germany.

The Group's capital and solvency positions remain strong, underpinned by continued focus on risk management, in both its disciplined investment and underwriting strategies. Shareholders' equity has increased by USD 3.0 billion to USD 34.5 billion since December 31, 2011, after recording the total cost of USD 2.8 billion for dividends paid in April 2012.

The strategic acquisitions towards the end of 2011 have now been integrated into the Group where Zurich Santander contributed USD 5.2 billion to the growth of gross written premiums and insurance deposits and a business operating profit of USD 165 million.

Business operating profit decreased by USD 169 million to USD 4.1 billion, or by 4 percent in U.S. dollar terms and 2 percent on a local currency basis.

- **General Insurance** business operating profit decreased by USD 150 million to USD 2.1 billion, or by 7 percent in U.S. dollar terms and 5 percent on a local currency basis. Progress on strategic targets was reflected by an improvement in the underlying results, underpinned by disciplined underwriting and expense management. However, this improvement was offset by overall declining investment income and decreases in favorable development of reserves established in prior years, mainly in Germany.

- **Global Life** business operating profit remained broadly flat at USD 1.3 billion in U.S. dollar terms and increased by 5 percent on a local currency basis, with a positive contribution from Zurich Santander of USD 105 million net of non-controlling interests and earn-out charges. This was largely offset by a lower contribution from Europe, primarily as a result of one-off expenses in Germany included in special operating items. Other movements in sources of profit were largely neutral in aggregate, with improved risk and expense margins benefiting from the continued shift to protection and unit-linked products, offset by reductions in the investment margin due to lower investment yields.

- **Farmers** business operating profit decreased by USD 72 million to USD 1.4 billion, or by 5 percent, primarily due to a net underwriting loss incurred by Farmers Re. **Farmers Management Services** business operating profit of USD 1.4 billion increased by USD 71 million, or by 5 percent, mainly driven by the increase in gross earned premiums 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 deteriorated by USD 142 million to a loss of USD 26 million, mainly reflecting the absence of favorable development of loss reserves established in prior years compared with 2011 as well as weather-related losses that were once again well above historical levels. This was partially offset by a year over year improvement in the underlying loss ratio.

Other Operating Businesses reported an increase in its business operating loss of USD 68 million to USD 903 million, mainly driven by the absence of favorable impacts from foreign currency movements compared with 2011.

Non-Core Businesses reported a business operating profit of USD 128 million compared with a loss of USD 8 million in 2011. This improvement came mainly from an increased profit from other run-off businesses.

Business volumes for the core business segments, comprising gross written premiums, policy fees, insurance deposits and management fees, increased by USD 4.5 billion to USD 73.1 billion, or by 7 percent in U.S. dollar terms and 11 percent on a local currency basis. This growth arose as follows:

- **General Insurance** gross written premiums and policy fees increased by USD 1.0 billion to USD 35.6 billion, or by 3 percent in U.S. dollar terms and 7 percent on a local currency basis, primarily as a result of rate increases. Selective and profitable growth remains the key focus area and leading premium indicators were favorable even as average rates increased by 4 percent. Overall premium growth was strong, particularly in International Markets through both organic growth and acquisitions, as well as in North America, while European results continued to be affected by lower levels of economic activity.

- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 2.5 billion to USD 30.3 billion, or by 9 percent in U.S. dollar terms and 16 percent on a local currency basis, benefiting from the contribution from Zurich Santander as well as higher volumes of single premium products in Corporate Life & Pensions and Private Banking Client Solutions, partially offset by a reduction in Spain where the product mix continued to shift from savings towards higher margin protection products.

- **Farmers Management Services** management fees and other related revenues of USD 2.8 billion increased by USD 79 million, or by 3 percent, driven by the 3 percent increase in gross earned premiums in the Farmers Exchanges. The 24 percent increase to USD 4.4 billion in gross written premiums of **Farmers Re** reflected the changes in the All Lines quota share reinsurance agreement with the Farmers Exchanges (All Lines agreement) as well as the 3 percent gross written premiums growth in the Farmers Exchanges.

Net income attributable to shareholders increased by USD 128 million to USD 3.9 billion or by 3 percent. The benefit from net capital gains on investments as well as the absence of litigation and other one-off expenses which negatively impacted 2011, more than offset the decrease in business operating profit. The **shareholders' effective tax rate** was 24.7 percent for 2012, compared with 24.2 percent for 2011, primarily as a result of adverse fluctuations in the geographic profit mix in 2012, which also impacted 2011 albeit to a lesser extent.

ROE was 11.8 percent for 2012, compared with 11.9 percent for 2011. This decrease was driven by the increase in shareholders' equity. **BOPAT ROE** of 9.3 percent decreased 0.9 percentage points. **Diluted earnings per share** increased by 10 percent to CHF 24.66 for the year ended December 31, 2012 compared with CHF 22.52 in 2011. The increase in diluted earnings per share of 10 percent compared with the increase in net income attributable to shareholders of 3 percent was due to the currency translation impact, as the U.S. dollar was on average stronger against the Swiss franc in 2012 than in 2011.

Operating and financial review *continued*

General Insurance

in USD millions, for the years ended December 31	2012	2011[1]	Change
Gross written premiums and policy fees	35,610	34,572	3%
Net earned premiums and policy fees	29,195	29,076	–
Insurance benefits and losses, net of reinsurance	(20,527)	(20,939)	2%
Net underwriting result	463	324	43%
Net investment income	2,516	2,799	(10%)
Net non-technical result (excl. items not included in BOP)	(901)	(886)	(2%)
Business operating profit	**2,097**	**2,247**	**(7%)**
Loss ratio	70.3%	72.0%	1.7 pts
Expense ratio	28.1%	26.9%	(1.2 pts)
Combined ratio	**98.4%**	**98.9%**	**0.5 pts**

[1] Restated as set out in note 1 of the Consolidated financial statements.

in USD millions, for the years ended December 31	Business operating profit (BOP)		Combined ratio	
	2012	2011	2012	2011
Global Corporate	496	169	99.1%	105.6%
North America Commercial	699	1,048	99.7%	95.9%
Europe	687	946	97.4%	97.2%
International Markets	166	(156)	98.7%	107.8%
GI Global Functions including Group Reinsurance	49	240	nm	nm
Total	**2,097**	**2,247**	**98.4%**	**98.9%**

Business operating profit decreased by USD 150 million to USD 2.1 billion or by 7 percent driven by a decline in investment income, partly offset by the improved net underwriting result. The net underwriting result benefitted from an improved underlying loss ratio, which more than compensated for the decrease in favorable development on reserves established in prior years, mainly arising in Germany from an increase of loss reserves for certain long-tail lines of business written in prior years, and higher commission expenses as the mix of business shifts toward products with higher commissions. Investment income decreased by USD 283 million or by 10 percent mainly due to lower yields and capital repatriation to the Group. This was partially compensated by an increase in hedge fund gains in the U.S.

Gross written premiums and policy fees increased by USD 1.0 billion to USD 35.6 billion, or by 3 percent in U.S. dollar terms and 7 percent on a local currency basis. The business remained focused on profitable growth and continued to capitalize on the favorable rate environment across all regions, achieving average rate increases of 4 percent. Premiums continued to increase in the mature North American market and, while part of this increase was attributable to adjustments to premiums for prior year policies as initial estimated insured risks were increased to reflect actual exposures, there have also been improvements in both customer retention and new business. In International Markets, Zurich Santander and Zurich Insurance Malaysia Berhad (ZIMB) contributed to the growth in premiums along with organic growth from the existing businesses. In Europe, premium volumes remain under pressure as a result of the economic environment in all significant markets as well as profit improvement efforts in selected portfolios such as personal lines motor.

The **net underwriting result** increased by USD 139 million to USD 463 million reflected in the improvement of 0.5 percentage points in the combined ratio to 98.4 percent. Across the portfolio, the business continued to execute against its strategic targets with an improvement in the underlying loss ratio of 2.9 percentage points following sustained increases in rates and focused actions to defend profit margins. Additionally, while the impact of Storm Sandy was significant, the overall catastrophe, large and weather-related events experienced throughout 2011 were more severe. Zurich Santander also contributed favorably to the overall result, improving the loss ratio by 0.7 percentage points. These improvements were partially offset by adverse development of reserves established in prior years mainly for certain long tail lines of business written in Germany. The expense ratio deteriorated by 1.2 percentage points to 28.1 percent. This was mainly driven by a higher commission ratio attributable to fluctuations in the business mix including business from Zurich Santander which carries a higher commission rate. The other underwriting expense ratio was virtually flat compared with 2011 in spite of continued investment in International Markets as well as higher pension expenses, as pension calculation assumptions were changed at the beginning of 2012 to recognize the economic environment. These increases were mostly offset by the continued execution of the strategic goal to reduce the expense base in mature markets.

Global Corporate

in USD millions, for the years ended December 31	2012	2011	Change
Gross written premiums and policy fees	8,609[1]	7,949	8%
Net underwriting result	48	(300)	nm
Business operating profit	**496**	**169**	**nm**
Loss ratio	78.0%	85.3%	7.3 pts
Expense ratio	21.1%	20.3%	(0.8 pts)
Combined ratio	**99.1%**	**105.6%**	**6.5 pts**

[1] net of internal business transfers

Business operating profit increased by USD 327 million to USD 496 million primarily as a result of the improvement in the underwriting result. Investment income was lower than in 2011 with the impact of lower yields across the portfolio partially compensated by hedge fund gains in the U.S. Non-technical expenses were slightly higher than in 2011 as a result of one-off charges in 2012 and the impact of a non-recurring benefit included in 2011, partially offset by gains on foreign currency transactions.

Gross written premiums and policy fees increased by USD 660 million to USD 8.6 billion, or by 8 percent in U.S. dollar terms and 12 percent on a local currency basis (after internal business transfers from North America Commercial) with higher average rate levels, particularly in energy, U.S. workers' compensation, international property and European motor, and new business across the portfolio, which continued to drive growth. Renewal retention also remained strong, slightly higher compared with 2011 despite rate increases in targeted segments as the business continued to improve profitability. Focus remained on disciplined underwriting and pricing with average rate increases of 5 percent across all regions, and in particular overall average rate increases of 8 percent achieved in North America, an increase of 2 percentage points compared with 2011.

The **net underwriting result** improved by USD 348 million to a profit of USD 48 million reflected in the 6.5 percentage points improvement in the combined ratio to 99.1 percent. While 2012 includes the impact of Storm Sandy, the impact was less severe compared with the major catastrophe events that occurred during 2011. The favorable development in the loss ratio also included an improved underlying loss ratio, reflecting the impact of rate increases adding to the result and continued focus on improving overall profitability. The expense ratio was higher with a lower other underwriting expense ratio more than offset by an increase in the commission ratio resulting from a change in reinsurance programs which reduced ceding commissions and by increased volumes of products with higher commissions.

Operating and financial review *continued*

North America Commercial

in USD millions, for the years ended December 31	**2012**	2011	Change
Gross written premiums and policy fees	10,003[1]	9,777	2%
Net underwriting result	26	315	(92%)
Business operating profit	**699**	**1,048**	**(33%)**
Loss ratio	71.4%	67.0%	(4.4 pts)
Expense ratio	28.2%	28.8%	0.6 pts
Combined ratio	**99.7%**	**95.9%**	**(3.8 pts)**

[1] net of internal business transfers

Business operating profit decreased by USD 349 million to USD 699 million, or by 33 percent driven by the deterioration in the underwriting result and lower levels of investment income. Lower investment income reflected lower yields and capital repatriation to the Group, which also reduced interest payable included in non-technical expenses, partially compensated by hedge fund gains in the U.S.

Gross written premiums and policy fees increased by USD 226 million to USD 10.0 billion, or by 2 percent (after internal business transfers to Global Corporate). Premium growth was attributable to the improving market environment that continued to support rate increases despite competitive pressures. The business continued to execute its rate-tiering strategies and has achieved average rate increases of 5 percent, while realizing benefits from strategic growth initiatives. These included real estate, technology and financial institutions as well as certain products including auto warranty, specialty products, program business and captives. Premiums also benefited from higher adjustments for prior year policies as initial estimated insured risks were increased to reflect actual exposures.

The **net underwriting result** decreased by USD 289 million to USD 26 million, as reflected in the deterioration of 3.8 percentage points in the combined ratio to 99.7 percent. Substantial benefits continued to be generated by favorable underlying property results, increasing rates and the impact of the continued focus on profitability, particularly in workers' compensation. The underwriting result also benefited from the earned effect of increases to premium for prior year policies. These improvements were offset, however, by a lower level of favorable development on reserves established in prior years, the impact of Storm Sandy, a higher incidence of large losses and losses related to crop businesses as a result of the drought in the U.S. The expense ratio improved by 0.6 percentage points as a result of efforts to improve operational efficiency.

Europe

in USD millions, for the years ended December 31	2012	2011[1]	Change
Gross written premiums and policy fees	11,882	12,932	(8%)
Net underwriting result	310	360	(14%)
Business operating profit	**687**	**946**	**(27%)**
Loss ratio	69.9%	71.0%	1.1 pts
Expense ratio	27.5%	26.1%	(1.4 pts)
Combined ratio	**97.4%**	**97.2%**	**(0.2 pts)**

[1] Restated as set out in note 1 of the Consolidated financial statements.

Business operating profit decreased by USD 259 million to USD 687 million, or by 27 percent in U.S. dollar terms and 27 percent on a local currency basis. The decrease was driven by lower investment income due to both lower yields and a reduced asset base, higher non-technical expenses related to one-off charges and lower net underwriting result.

Gross written premiums and policy fees decreased by USD 1.1 billion to USD 11.9 billion, or by 8 percent in U.S. dollar terms and 2 percent on a local currency basis. The lower volume was driven largely by the economic environment that remained challenging in many European countries and by actions taken on specific products in selected markets to improve overall profitability. These impacts were most visible in personal lines motor in the UK, Italy and Spain. Overall average rate increases of 3 percent were achieved in 2012.

The **net underwriting result** deteriorated by USD 50 million to USD 310 million, reflected in the deterioration in the combined ratio of 0.2 percentage points to 97.4 percent. The underlying loss ratio benefited from the continued implementation of profit improvement strategies. These were offset by lower levels of favorable development on reserves established in prior years, mainly in Germany, and an increase in severity of large losses. The increase in the expense ratio of 1.4 percentage points mainly arose from the movement of deferred policy acquisition costs and one-off charges in Germany. In addition, a change in pension calculation assumptions due to the economic environment increased the overall pension expenses, particularly in the UK.

Operating and financial review *continued*

International Markets

in USD millions, for the years ended December 31	2012	2011	Change
Gross written premiums and policy fees	5,603	4,425	27%
Net underwriting result	55	(265)	nm
Business operating profit	**166**	**(156)**	**nm**
Loss ratio	60.3%	72.9%	12.6 pts
Expense ratio	38.4%	34.9%	(3.4 pts)
Combined ratio	**98.7%**	**107.8%**	**9.1 pts**

Business operating profit improved by USD 322 million to USD 166 million, driven mainly by significantly reduced levels of catastrophe and weather-related losses. An increase in investment income was generated by a higher asset base reflecting portfolio growth across Latin America, Asia-Pacific, and Middle East and Africa.

Gross written premiums and policy fees increased by USD 1.2 billion to USD 5.6 billion, or by 27 percent in U.S. dollar terms and 34 percent on a local currency basis. Growth in Latin America was 72 percent on a local currency basis mainly attributable to the positive contribution from Zurich Santander as well as from underlying growth in motor lines in Brazil, Mexico and Argentina together with a positive contribution from insurance product sales through retail outlets in Brazil. Asia-Pacific achieved growth of 15 percent on a local currency basis benefiting from the newly acquired ZIMB as well as from underlying growth in Japan and Australia.

The **net underwriting result** improved by USD 320 million to a profit of USD 55 million reflected in the 9.1 percentage points improvement in the combined ratio to 98.7 percent. The loss ratio improved by 12.6 percentage points to 60.3 percent reflecting a lower level of catastrophe and weather-related events compared with significant events in Japan, New Zealand and Australia in 2011, as well as a favorable underlying loss experience in 2012 including a 4.3 percentage points improvement from the inclusion of Zurich Santander. These improvements were offset to some extent by a higher frequency of large losses and lower levels of favorable development of reserves established in prior years, following an inflation adjustment which increased the reserves for motor third party liability in Argentina. The higher expense ratio was mainly driven by higher commissions from the inclusion of Zurich Santander and growth in other higher commission products in Latin America, as well as higher other underwriting expenses linked to continuing investments in target markets and products in International Markets.

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Global Life

in USD millions, for the years ended December 31	2012	2011	Change
Insurance deposits	16,670	16,127	3%
Gross written premiums and policy fees	13,590	11,583	17%
Net investment income on Group investments	3,991	4,146	(4%)
Insurance benefits and losses, net of reinsurance	(9,592)	(9,503)	(1%)
Business operating profit[1]	**1,338**	**1,353**	**(1%)**
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves)[2]	214,676	195,951	10%
Assets under management[2, 3]	254,822	232,329	10%
Net policyholder flows[4]	1,402	2,769	(49%)

[1] Business operating profit for 2012 included USD 105 million of profit from Zurich Santander earned between the dates of acquisition and December 31, 2012, calculated after deducting non-controlling interests and USD 21 million for an increase to the liability for future earn-out payments. Details of the overall IFRS impact are set out in note 5 to the Consolidated financial statements.
[2] Restated as set out in note 1 of the Consolidated financial statements.
[3] 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 fees are earned.
[4] Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.

	2012	2011	Change
New business – highlights[1, 2, 3, 4]			
New business annual premium equivalent (APE)	**4,030**	**3,992**	**1%**
Present value of new business premiums (PVNBP)	35,296	33,399	6%
New business margin, after tax (as % of APE)	**22.1%**	**24.5%**	**–2.5 pts**
New business margin, after tax (as % of PVNBP)	2.5%	2.9%	–0.4 pts
New business value, after tax	**890**	**980**	**(9%)**

[1] New business amounts are calculated on embedded value principles, details of which are included in the Embedded value report.
[2] New business amounts do not include Zurich Santander and ZIMB. As set out in the Embedded value report, these businesses generated USD 195 million of new business value for the twelve months of 2012.
[3] In 2012, new business has been determined including a liquidity premium in the discount rate applied to the time value of options and guarantees, but with no restatement of the 2011 comparative figures.
[4] A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011. This has a transitional impact over two years from the implementation date relating to renewals of business in-force at the date of the change. The renewed business contributed USD 68 million of new business value in 2012 compared with USD 126 million in 2011.

Profit by source[1]

in USD millions, for the years ended December 31	New business		Business in-force		Total	
	2012	2011	**2012**	2011	**2012**	2011
Net expense margin	(1,434)	(1,541)	1,398	1,443	(36)	(98)
Net risk margin			769	762	769	762
Net investment margin			661	709	661	709
Other profit margins			82	(117)	82	(117)
BOP before deferrals	(1,434)	(1,541)	2,910	2,797	1,476	1,256
Impact of acquisition deferrals	1,167	1,372	(903)	(1,040)	264	332
BOP before interest, depreciation and amortization	(266)	(169)	2,006	1,757	1,740	1,588
Interest, depreciation and amortization			(273)	(334)	(273)	(334)
Non-controlling interests			(146)	(26)	(146)	(26)
BOP before special operating items	(266)	(169)	1,587	1,397	1,320	1,228
Special operating items			18	126	18	126
Business operating profit	**(266)**	**(169)**	**1,605**	**1,523**	**1,338**	**1,353**

[1] See glossary for an explanation of profit by source.

Operating and financial review *continued*

Business operating profit remained broadly flat at USD 1.3 billion in U.S. dollars terms, and increased by 5 percent on a local currency basis, with a positive contribution from Zurich Santander of USD 105 million net of non-controlling interests and earn-out charges being largely offset by a decrease in Europe, primarily as a result of special operating items in Germany. Other sources of profit remained largely flat in aggregate, with improvements in the risk and expense margins benefiting from the continued shift to protection and unit-linked products, offset by reductions in the investment margin due to lower investment yields.

Before special operating items, business operating profit increased by USD 93 million or by 8 percent in U.S. dollar terms and 12 percent on a local currency basis.

The net expense margin improved by USD 62 million benefiting from increased fee income arising from an ongoing shift towards unit-linked products. The net risk margin improved by USD 7 million, with the positive impact from the increasing level of protection products offset by currency translation effects. The net investment margin reduced by USD 48 million, significantly impacted by currency translation effects, with the decrease in local currency driven by lower yields in North America, whilst realization of investment gains in Germany towards the end of 2012 significantly reduced the indirect strain experienced earlier in the year from the "Zinszusatzreserve" requirements. Other profit margins improved by USD 199 million, contributing USD 82 million to business operating profit, and included USD 225 million business operating profit from Zurich Santander, before the effect of non-controlling interests and earn-out charges, earned between the dates of acquisition in late 2011 and December 31, 2012. Furthermore the impact of acquisition deferrals decreased by USD 68 million resulting from a change in the method for deferring commissions introduced as of September 2011 primarily in Germany, offset by lower interest, depreciation and amortization costs.

Special operating items contributed USD 18 million to business operating profit, a decrease of USD 108 million compared with 2011. They included a charge of USD 74 million related to recent rulings by the German Federal Court of Justice, which impacted the local insurance industry, clarifying the application and effect of certain policyholder terms and conditions in the event of early contract termination.

Insurance deposits increased by USD 542 million to USD 16.7 billion, or by 3 percent in U.S. dollar terms and 10 percent on a local currency basis. An increase of USD 2.5 billion relating to the inclusion of Zurich Santander was partially offset by USD 1.4 billion lower insurance deposits in Spain as product mix shifted from savings to higher margin protection products.

Gross written premiums and policy fees increased by USD 2.0 billion to USD 13.6 billion, or by 17 percent in U.S. dollar terms and 25 percent on a local currency basis, with the increase resulting from the inclusion of Zurich Santander.

Net reserves increased by USD 18.7 billion, or by 10 percent in U.S. dollar terms and 7 percent on a local currency basis compared with December 31, 2011, driven by favorable market movements in Europe. **Assets under management** increased by USD 22.5 billion, or by 10 percent in U.S. dollar terms and 7 percent on a local currency basis compared with December 31, 2011, also benefiting from favorable market movements in Europe. **Net policyholder flows** remained positive at USD 1.4 billion with net outflows in Europe being more than offset by net inflows in all other regions.

NBV, APE, NBM and BOP by region

in USD millions, for the years ended December 31	New business value, after tax (NBV)[3]		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE) (NBM)		Business operating profit (BOP)	
	2012	2011	2012	2011	2012	2011	2012	2011
North America	109	60	125	111	87.1%	54.3%	244	227
Latin America[1, 2]	99	71	755	313	13.2%	22.6%	155	49
Europe	453	547	2,538	2,883	17.9%	19.0%	805	953
of which:	–	–	–	–	–	–		
United Kingdom	*195*	*154*	*1,194*	*1,235*	*16.4%*	*12.5%*	*295*	*275*
Germany	*37*	*171*	*453*	*588*	*8.2%*	*29.1%*	*137*	*295*
Switzerland	*25*	*9*	*220*	*151*	*11.5%*	*6.0%*	*262*	*267*
Ireland	*66*	*67*	*355*	*331*	*18.5%*	*20.2%*	*23*	*18*
Spain	*94*	*107*	*149*	*367*	*62.9%*	*29.2%*	*14*	*31*
Rest of Europe	*36*	*38*	*167*	*212*	*21.5%*	*18.0%*	*74*	*67*
Asia-Pacific and Middle East[2]	125	136	464	524	26.9%	25.9%	135	124
Other[4]	103	167	147	161	70.1%	103.7%	–	–
Total	**890**	**980**	**4,030**	**3,992**	**22.1%**	**24.5%**	**1,338**	**1,353**

NBV and APE by pillar[2, 3]

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)	
	2012	2011	2012	2011	2012	2011
Bank Distribution	114	201	419	700	27.3%	28.8%
IFA/Brokers	184	185	789	933	23.3%	19.9%
Agents	152	130	428	508	35.6%	25.7%
International/Expats	69	83	250	285	27.4%	29.3%
Total Retail pillars	**519**	**601**	**1,886**	**2,426**	**27.5%**	**24.8%**
Corporate Life & Pensions[4]	285	293	1,703	1,175	16.7%	24.9%
Private Banking Client Solutions	24	20	319	271	7.4%	7.4%
Direct and Central Initiatives	61	66	122	120	50.2%	55.1%
Total	**890**	**980**	**4,030**	**3,992**	**22.1%**	**24.5%**

[1] Business operating profit for 2012, included USD 105 million of profit from Zurich Santander, earned between the dates of acquisition and December 31, 2012, calculated after deducting non-controlling interests and USD 21 million for an increase to the liability for future earn-out payments. Details of the overall IFRS impact are set out in note 5 to the Consolidated financial statements.
[2] New business amounts do not include Zurich Santander and ZIMB. As set out in the Embedded value report, these businesses generated USD 195 million of new business value for the twelve months of 2012.
[3] In 2012, new business has been determined including a liquidity premium in the discount rate applied to the time value of options and guarantees, but with no restatement of the 2011 comparative figures.
[4] A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011. This has a transitional impact over two years from the implementation date relating to renewals of business in-force at the date of the change. The renewed business contributed USD 68 million of new business value in 2012 compared with USD 126 million in 2011.

Overall, Global Life continued to benefit in 2012 from its investment in organic growth in target markets, while maintaining focus on shifting its product mix from traditional savings business towards protection and unit-linked products and leveraging its global strength in Corporate Life & Pensions and Bank Distribution.

The recent acquisitions of Zurich Santander in Latin America and ZIMB in Asia-Pacific further strengthened the position of Global Life in those regions, generating USD 195 million of new business value for the twelve months of 2012 which has not been included in the new business figures in the tables above.

New business value (excluding the recent acquisitions) declined by USD 90 million to USD 890 million, or by 9 percent in U.S. dollar terms and 5 percent on a local currency basis. The transitional impact of the methodology refinement for corporate protection renewals of USD 68 million for 2012 was USD 58 million lower than in 2011. Excluding this refinement, new business value on a local currency basis remained flat. In Germany, the impact of the continued reduction in interest rates resulted in new business value of USD 37 million compared with USD 171 million in 2011. This reduction was offset by increases in North America, Latin America, the UK and Switzerland.

Operating and financial review *continued*

APE (excluding the recent acquisitions) increased by USD 38 million to USD 4.0 billion, or by 1 percent in U.S. dollar terms and 5 percent on a local currency basis, also benefiting from volume increases in North America, Latin America and Switzerland. In Latin America, the main driver of the increase was the successful participation in the social security (SIS) biennial bid process in Chile.

New business margin (excluding the recent acquisitions) decreased by 2.5 percentage points to 22.1 percent, mainly driven by a reduction of 1.4 percentage points related to the transitional impact of the methodology refinement for corporate protection renewals and a reduction of 2.0 percentage points related to the impact from the high volume and lower margin SIS transaction in Chile. These impacts were partly offset by increases driven by higher margin protection business, particularly in North America, Spain and the UK.

In Europe, the overall reduction of USD 93 million in new business value was primarily driven by a combination of lower volumes and margin pressure experienced in Germany as a result of lower interest rates and reducing spreads on traditional business. In Switzerland, product mix changes reduced exposure to interest rates and strong volumes towards the end of the year in both individual and corporate business led to an increase in new business value of USD 16 million, or 179 percent in U.S. dollar terms. In the UK, new business value increased by USD 41 million, or by 27 percent in U.S. dollar terms, driven by margin improvements in protection business. In Spain, where over 90 percent of the business arises from Bank Distribution, new business value decreased by USD 13 million to USD 94 million. This reduction resulted from the continued shift from lower margin savings business to higher margin protection business, leading to significantly lower new business APE, albeit with a higher new business margin, which more than doubled to 62.9 percent.

North America experienced an increase in both new business value and new business APE in the Retail pillars compared with 2011. The increase in new business value was mainly driven by strong margin improvements in the protection business as a result of price increases and improved utilization of reinsurance. New business APE increased by 13 percent compared with the same period of 2011 as the expansion strategy in the IFA/Brokers pillar and growth initiatives in the Agents pillar began to gain traction.

In **Retail pillars,** new business value decreased by USD 81 million to USD 519 million, or by 14 percent in U.S. dollar terms and 10 percent on a local currency basis. The majority of this decrease occurred in the Bank Distribution pillar in Europe and was partially offset by growth in the Agents pillar in North America.

In **Corporate Life & Pensions,** new business value reduced by USD 8 million to USD 285 million. This reduction resulted from the decrease of USD 58 million in the transitional impact from the refinement in methodology for corporate protection renewals, offset by an increase of USD 51 million, or 30 percent, in underlying new business value. This increase was driven by the successful conclusion of the SIS transaction in Chile and the leverage of global relationships with major employee benefit consultants, particularly in the UK, where the increase in new business value was exceptionally strong at 68 percent in total for both corporate savings and corporate protection business. New business APE increased by USD 528 million, or 45 percent, mainly resulting from strong volume growth in corporate protection business in Chile and Switzerland.

Private Banking Client Solutions increased new business value by USD 4 million to USD 24 million. This increase in new business value was mainly driven by final placements of tranches of an investment bond through bank distribution partners in the UK, which also contributed USD 39 million to the overall growth in new business APE of USD 48 million.

Farmers

Farmers business operating profit decreased by USD 72 million to USD 1.4 billion, or by 5 percent, primarily reflecting the absence of favorable development of loss reserves established in prior years in Farmers Re compared with 2011. This deterioration was partially offset by higher business operating profit in Farmers Management Services due to higher management fee revenues driven by a 3 percent increase in gross earned premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group.

Farmers Management Services

in USD millions, for the years ended December 31	2012	2011	Change
Management fees and other related revenues	2,846	2,767	3%
Management and other related expenses	(1,467)	(1,434)	(2%)
Gross management result	1,378	1,333	3%
Other net income	62	36	71%
Business operating profit	**1,441**	**1,370**	**5%**
Managed gross earned premium margin	7.3%[1]	7.3%	–

[1] Calculated based on gross earned premiums of the Farmers Exchanges of USD 18.8 billion, which excludes the return of USD 74 million in premiums as a result of the anticipated settlement of a lawsuit with the State of Texas.

Business operating profit of USD 1.4 billion increased by USD 71 million, or by 5 percent, primarily driven by an increase in management fee revenues.

Management fees and other related revenues of USD 2.8 billion increased by USD 79 million, or by 3 percent, driven by the higher management fee income from increased gross earned premiums in the Farmers Exchanges, which grew across all lines of business. **Management and other related expenses** of USD 1.5 billion increased by USD 34 million, or by 2 percent, compared with 2011. This increase was primarily due to higher costs associated with employee benefits and business transformation. Other net income and expenses of USD 62 million increased by USD 26 million, mainly driven by a benefit recognized due to the settlement of a portion of the pension liability related to vested plan participants who are no longer employed by the company.

The **gross management result** of USD 1.4 billion increased by USD 45 million, while the **managed gross earned premium margin** remained constant at 7.3 percent.

Operating and financial review *continued*

Farmers Re

in USD millions, for the years ended December 31	2012	2011	Change
Gross written premiums and policy fees	4,361	3,529	24%
Net underwriting result	(163)	(23)	nm
Business operating profit	**(26)**	**116**	**nm**
Loss ratio	72.4%	70.5%	(1.8 pts)
Expense ratio	31.3%	30.2%	(1.1 pts)
Combined ratio	**103.7%**	**100.8%**	**(2.9 pts)**

Business operating profit deteriorated by USD 142 million to a loss of USD 26 million. This deterioration was primarily due to the absence of favorable development of reserves established in prior years, which benefited Farmers Re during 2011. Investment income and other income decreased by USD 2 million, or by 2 percent, primarily due to lower yields which have more than offset the increase from the larger asset base created by the higher All Lines agreement participation rate.

Gross written premiums and policy fees increased by USD 832 million, or by 24 percent, to USD 4.4 billion mainly as a result of the changes in the All Lines agreement as well as the 3 percent gross written premiums growth in the Farmers Exchanges. The changes were an increase to 20 percent effective December 31, 2011 from 12 percent throughout 2011 and a decrease to 18.5 percent effective December 31, 2012, subject to the approval of the California Department of Insurance.

The **net underwriting result** deteriorated by USD 140 million to a loss of USD 163 million. This deterioration, which was exacerbated by the increased participation rate in the All Lines agreement, was mainly due to higher assumed losses from the Farmers Exchanges in 2012. Despite the impact of Storm Sandy the underwriting result returned to profit in the second half of 2012.

The **loss ratio** increased by 1.8 percentage points compared with 2011. The 2011 result reflected favorable development of reserves established in prior years. Although weather-related losses were only slightly higher than 2011 they remained significantly above historical levels. This arose from high weather-related losses during the first half of 2012 relating to a series of tornados and hailstorms in the Midwest U.S. and severe wildfires in Colorado. However, weather-related losses were significantly lower in the second half of the year despite Storm Sandy. These adverse effects were partially offset by an improved underlying loss ratio in 2012 when compared with 2011. The **expense ratio** increased by 1.1 percentage points driven by a change in the reinsurance commissions.

Farmers Exchanges

Farmers Exchanges

in USD millions, for the years ended December 31	2012	2011	Change
Gross written premiums	18,935	18,297	3%
Gross earned premiums	18,703	18,149	3%

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 637 million to USD 18.9 billion, or by 3 percent. This increase was driven by continued premium growth in all lines of business primarily as a result of ongoing rate actions undertaken to improve profitability, which resulted in a small decrease in policies in force. Furthermore, the 2012 results are net of the return of USD 74 million of premiums as a result of the anticipated settlement of a lawsuit with the State of Texas and excluding this return gross written premiums were USD 19.0 billion, or 4 percent higher than 2011.

Gross earned premiums in the Farmers Exchanges increased by USD 554 million to USD 18.7 billion, or by 3 percent, driven by continued increases in gross written premiums in all lines of business during the year. Furthermore, the 2012 results are net of the return of USD 74 million of premiums as a result of the anticipated settlement of a lawsuit with the State of Texas. Excluding this return gross earned premiums were USD 18.8 billion, or 3 percent higher than 2011.

Other Operating Businesses

in USD millions, for the years ended December 31	2012	2011	Change
Business operating profit:			
Holding and financing	(736)	(589)	(25%)
Headquarters	(167)	(246)	32%
Total business operating profit	**(903)**	**(835)**	**(8%)**

Other operating businesses loss increased by USD 68 million to USD 903 million in 2012. **Holding and financing** business operating loss increased by USD 147 million to USD 736 million driven by benefits from foreign currency movements in 2011, which did not recur in 2012, as well as reduced income on short term deposits. The reduction of USD 80 million in the business operating loss at **Headquarters** was driven by lower staff related costs and media spend combined with an increase in revenues due to higher license fee charge outs to units.

Non-Core Businesses

in USD millions, for the years ended December 31	2012	2011	Change
Business operating profit:			
Centrally managed businesses:	29	(11)	nm
Centre	75	60	25%
Banking activities[1]	(72)	(90)	20%
Other centrally managed businesses	26	18	39%
Other run-off	100	3	nm
Total business operating profit	**128**	**(8)**	**nm**

[1] Banking activities includes Dunbar Asset Ireland, formerly known as Zurich Bank. On December 14, 2012, the Central Bank of Ireland approved Zurich Bank's request to revoke its banking license. This change does not affect Zurich Bank International Limited which continues to operate in the Isle of Man nor Dunbar Assets plc which continues to operate in the UK.

Centrally managed businesses, which comprise run-off portfolios that are managed with the intention to pro-actively reduce risk and release capital, reported a business operating profit of USD 29 million compared with a loss of USD 11 million in 2011. Business operating profit for **Centre** improved by USD 15 million to USD 75 million mainly driven by reserve releases from the settlement of claims, partially offset by reduced favorable movements in financial markets on Centre's insurance portfolio where both assets and liabilities are carried at fair value. **Banking activities'** business operating loss improved by USD 18 million mainly reflecting lower charges for loan loss provisions compared with 2011. **Other centrally managed businesses** recorded a USD 26 million profit, which was mainly driven by the impact of the reinsurance agreement put in place as a first step for the transfer of a UK general insurance portfolio predominantly consisting of U.S. asbestos, pollution and health risks to a third party.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 100 million. This profit was mainly driven by a reassessment of liabilities on certain life run-off policies as well as by favorable reserve movements reflecting reduced market volatility.

Operating and financial review *continued*

Investment position and performance

Details of total investments by category

in USD millions, as of	Group investments		Unit-linked investments	
	12/31/12	12/31/11[1]	**12/31/12**	12/31/11[1]
Cash and cash equivalents	9,098	8,882	1,261	1,280
Equity securities:	12,341	12,650	100,144	89,535
Common stocks, including equity unit trusts	9,388	8,477	78,587	70,576
Unit trusts (debt securities, real estate and short-term investments)	2,418	3,675	21,557	18,958
Common stock portfolios backing participating with-profit policyholder contracts	534	498	–	–
Debt securities	155,594	144,511	12,062	11,825
Real estate held for investment	8,561	8,472	3,481	3,898
Mortgage loans	10,519	11,058	–	–
Other loans	12,423	11,944	8,279	7,739
Investments in associates and joint ventures	172	161	–	–
Total	**208,707**	**197,677**	**125,226**	**114,276**

[1] Restated as set out in note 1 of the Consolidated financial statements.

Group investments increased by USD 11.0 billion to USD 208.7 billion, or by 6 percent in U.S. dollar terms since December 31, 2011. On a local currency basis, total Group investments increased by USD 7.7 billion, or by 4 percent, mainly due to positive revaluations of debt securities and cash flows invested in debt securities.

Unit-linked investments increased by USD 11.0 billion to USD 125.2 billion, or by 10 percent in U.S. dollar terms and 7 percent on a local currency basis, mostly benefiting from favorable market movements in Europe.

The Group's asset and liability management strategy remains disciplined and the Group continues to reduce risks which it believes are not rewarded, such as foreign currency, interest rate and concentration risks. The quality of the Group's investment portfolio remains high. Investment grade securities continue to comprise 98 percent of the Group's debt securities.

Performance of Group investments

in USD millions, for the years ended December 31	2012	2011	Change
Net investment income[1]	6,711	7,185	(7%)
Net capital gains/(losses) on investments and impairments	2,201	2,182	1%
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	1,687	1,515	11%
Net investment result on Group investments[1]	8,911	9,367	(5%)
Net investment return on Group investments	**4.4%**	**4.8%**	**(0.4 pts)**
Movements in net unrealized gains/(losses) on investments included in total equity	5,349	1,090	nm
Total investment result on Group investments[1]	**14,261**	**10,458**	**36%**
Average Group investments[2]	203,192	196,788	3%
Total return on Group investments	**7.0%**	**5.3%**	**1.7 pts**

[1] After deducting investment expenses of USD 252 million for the years ended December 31, 2012 and 2011.
[2] Restated as set out in note 1 of the Consolidated financial statements.

Total **net investment income** decreased by 7 percent in U.S. dollar terms to USD 6.7 billion and by 2 percent on a local currency basis compared with 2011, due to lower reinvestment yields on debt securities.

Total **net capital gains on investments and impairments** marginally increased to USD 2.2 billion in 2012 compared with 2011 driven by higher net capital gains from active management.

Net capital gains from active management contributed USD 2.1 billion compared with USD 1.1 billion in 2011, which included a gain of USD 441 million from the sale of part of the Group's share in New China Life Insurance Co. Ltd.

Investments booked at fair value through profit or loss, including derivatives used for hedging, contributed gains of USD 286 million in 2012 compared with gains of USD 1.5 billion in 2011.

Impairments at USD 208 million in 2012 were USD 250 million lower than in 2011.

Net investment return on Group investments was 4.4 percent, 0.4 percentage points lower compared with 2011.

Net unrealized gains/losses on investments included in total equity increased by USD 5.3 billion since December 31, 2011. This mainly reflects higher net unrealized gains on debt securities of USD 4.7 billion resulting from the tightening of credit spreads and falling yields on government securities. Rising equity markets contributed net unrealized gains on equities of USD 606 million since December 31, 2011.

Total return, net of investment expenses, on average Group investments was a strong 7.0 percent, an increase of 1.7 percentage points compared with 2011.

Debt securities, which are invested to match the Group's insurance liability profiles, returned 7.9 percent. Equity securities returned 11.9 percent and other investments returned 3.0 percent.

Operating and financial review *continued*

Performance of unit-linked investments

in USD millions, for the years ended December 31	2012	2011	Change
Net investment income	1,836	1,757	5%
Net capital (losses)/gains on investments and impairments	8,431	(5,302)	nm
Net investment result, net of investment expenses[1]	10,268	(3,544)	nm
Average investments[2]	119,751	111,112	8%
Total return on unit-linked investments	**8.6%**	**(3.2%)**	**11.8 pts**

[1] After deducting investment expenses of USD 508 million and USD 610 million for the years ended December 31, 2012 and 2011, respectively.
[2] Restated as set out in note 1 of the Consolidated financial statements.

Total return on unit-linked investments was a positive 8.6 percent compared with a negative 3.2 percent in 2011. The improvement in the total return was due to net capital gains of USD 8.4 billion compared with net capital losses of USD 5.3 billion in 2011, reflecting stronger equity and debt markets in 2012 compared with those in 2011. Net investment income increased by USD 79 million.

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 to Non-Core Businesses.

in USD millions	Total Group		of which General Insurance	
	2012	2011[1]	**2012**	2011[1]
As of January 1				
Gross reserves for losses and loss adjustment expenses	67,762[1]	68,274	64,311[1]	64,030
Reinsurers' share	(12,421)[1]	(12,093)	(11,195)[1]	(11,192)
Net reserves for losses and loss adjustment expenses	**55,341[1]**	**56,180**	**53,116[1]**	**52,838**
Net losses and loss adjustment expenses incurred	23,769	22,465	20,547	20,919
Current year	24,340	23,767	21,131	22,140
Prior years	(571)	(1,302)	(584)	(1,221)
Net losses and loss adjustment expenses paid	(23,378)	(22,909)	(20,412)	(20,301)
Current year	(9,853)	(9,817)	(7,621)	(8,241)
Prior years	(13,525)	(13,092)	(12,791)	(12,059)
Acquisitions/(divestments) and transfers	960	181	1,300	177
Foreign currency translation effects	693	(576)	682	(517)
As of December 31				
Net reserves for losses and loss adjustment expenses	**57,385**	**55,341**	**55,234**	**53,116**
Reinsurers' share	(12,601)	(12,421)	(11,308)	(11,195)
Gross reserves for losses and loss adjustment expenses	69,986	67,762	66,542	64,311

[1] Restated as set out in note 1 of the Consolidated financial statements.

The **net reserves for loss and loss adjustment expenses** for the Group increased by USD 2.0 billion to USD 57.4 billion compared with December 31, 2011 of which USD 693 million related to the effects of foreign currency translation. Acquisitions/(divestments) and transfers include USD 1.2 billion from the reclassification of annuity reserves related to claims that were previously included as policyholders contract deposits and other funds. Details of reserve development emerging from reserves established in prior years are set out in note 8 of the Consolidated financial statements. The reduction in favorable development of USD 731 million to USD 571 million primarily arose from the further strengthening of reserves for losses arising in prior years in Germany and a reduction in favorable development in North America Commercial. During 2012, reserves for losses arising in prior years in Germany were strengthened by USD 476 million. This strengthening relates to long-tail liability business in Germany that takes approximately 8 to 12 years on average to settle and still carries a high level of uncertainty going forward. The Group has placed certain parts of this business into run-off.

Operating and financial review *continued*

Development of cumulative net loss ratio[1]

	2003	2004	2005	2006	2007	2008	2009	2010	2011	**2012**
In the year	67.1%	68.3%	73.3%	69.6%	72.7%	74.6%	72.3%	73.5%	74.2%	71.3%
One year later	66.1%	64.2%	68.1%	66.2%	71.7%	74.1%	72.0%	73.2%	74.0%	
Two years later	65.4%	63.5%	66.6%	64.8%	70.6%	72.4%	70.7%	72.1%		
Three years later	65.5%	63.7%	65.0%	63.3%	69.4%	72.3%	70.6%			
Four years later	65.7%	62.9%	63.8%	62.6%	68.6%	72.1%				
Five years later	65.0%	62.2%	63.2%	61.6%	68.0%					
Six years later	64.6%	62.1%	62.6%	61.0%						
Seven years later	64.4%	61.9%	62.3%							
Eight years later	64.5%	61.9%								
Nine years later	64.5%									

[1] The Germany prior years adjustment, as set out in note 1 of the Consolidated financial statements, is reflected as a restatement of the 2011 in the year net loss ratio. For the accident years 2003 to 2010 the adjustment is included in the latest year development.

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:

- 2004: Hurricanes Charley, Frances, Jeanne and Ivan in Florida increased the loss ratio by 2.8 percentage points;
- 2005: Hurricanes Katrina, Rita and Wilma in the U.S. and floods in Europe increased the loss ratio by 4.6 percentage points;
- 2007: The winter storm Kyrill in Europe and the floods in the UK increased the loss ratio by 2.5 percentage points;
- 2008: Hurricane Gustav and Hurricane Ike in the U.S. increased the loss ratio by 1.8 percentage points;
- 2010: The earthquake in Chile and the floods in Australia increased the loss ratio by 0.8 percentage points;
- 2011: 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 increased the loss ratio by a net 2.6 percentage points, after the Group's aggregate catastrophe reinsurance recovery;
- 2012: Storm Sandy in the north east of the U.S. increased the loss ratio by 2.5 percentage points.

The development of 2003 and subsequent years demonstrates the Group's philosophy of taking a prudent view on reserving.

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 businesses that are in run-off or are centrally managed, and are included only in this first table below.

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

in USD millions	Global Life		Other segments		Total Group	
	2012	2011[1]	2012	2011	2012	2011[1]
Net reserves as of January 1	195,951[1]	187,196	18,027	17,331	213,978[1]	204,527
Movements in net reserves	18,725	8,754	(1,238)	696	17,487	9,450
Net reserves as of December 31	**214,676**	**195,951**	**16,789**	**18,027**	**231,464**	**213,978**

[1] Restated as set out in note 1 of the Consolidated financial statements.

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	
	2012	2011[3]	2012	2011[3]	2012	2011[3]
As of January 1						
Gross reserves	108,295[3]	100,891	89,731[3]	88,299	198,026[3]	189,189
Reinsurers' share	–	–	(2,076)[3]	(1,993)	(2,076)[3]	(1,993)
Net reserves	**108,295[3]**	**100,891**	**87,656[3]**	**86,306**	**195,951[3]**	**187,196**
Premiums	18,263	17,087	9,138	9,187	27,401	26,273
Claims	(17,481)	(13,732)	(9,360)	(10,604)	(26,841)	(24,336)
Fee income and other expenses	(1,900)	(1,866)	(1,780)	(2,277)	(3,679)	(4,143)
Interest and bonuses credited to policyholders	10,394	(3,105)	3,496	3,176	13,890	71
Change in assumptions	–	–	(100)	79	(100)	79
Acquisitions/(divestments) and transfers	4	10,321	998	2,970	1,002	13,291
Increases/(decreases) recorded in other comprehensive income	4	(6)	2,425	730	2,429	724
Foreign currency translation effects	2,795	(1,295)	1,829	(1,910)	4,623	(3,205)
As of December 31						
Net reserves	**120,373**	**108,295**	**94,302**	**87,656**	**214,676**	**195,951**
Reinsurers' share	–	–	(1,988)	(2,076)	(1,988)	(2,076)
Gross reserves	120,373	108,295	96,290	89,731	216,664	198,026

[1] Includes reserves for unit-linked contracts, the net amounts of which were USD 62.2 billion and USD 57.3 billion, and liabilities for investment contracts, the net amounts of which were USD 58.1 billion and USD 51 billion as of December 31, 2012 and 2011, respectively
[2] Includes reserves for future life policyholders' benefits, the net amounts of which were USD 76.7 billion and USD 73.4 billion and policyholders' contract deposits and other funds, the net amounts of which were USD 17.6 billion and USD 14.3 billion as of December 31, 2012 and 2011, respectively
[3] Restated as set out in note 1 of the Consolidated financial statements.

Total reserves and liabilities for insurance and investment contracts, net of reinsurance, increased by USD 18.7 billion, or by 10 percent in U.S. dollar terms and 7 percent on a local currency basis, compared with December 31, 2011. This increase was mainly driven by the impact of favorable market movements on investments in Europe. The increase in acquisition in 2011 is mainly related to Zurich Santander.

Operating and financial review *continued*

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	
	12/31/12	12/31/11	**12/31/12**	12/31/11	**12/31/12**	12/31/11
North America	1,021	913	5,307	5,214	6,329	6,126
Latin America	10,709	10,462[1]	5,204	3,400[1]	15,913	13,863[1]
Europe	94,817	84,797	80,468	75,763	175,285	160,560
of which:						
United Kingdom	*58,468*	*52,460*	*5,200*	*5,056*	*63,667*	*57,516*
Germany	*11,823*	*9,859*	*43,084*	*40,004*	*54,907*	*49,863*
Switzerland	*786*	*671*	*19,741*	*18,672*	*20,528*	*19,343*
Ireland	*13,215*	*10,792*	*1,727*	*1,519*	*14,942*	*12,310*
Spain	*4,874*	*5,476*	*5,981*	*6,007*	*10,855*	*11,482*
Rest of Europe	*5,651*	*5,539*	*4,734*	*4,505*	*10,385*	*10,045*
Asia-Pacific and Middle East	11,315	10,265	3,035	3,005	14,350	13,269
Other	2,511	1,858	284	273	2,795	2,131
Eliminations	–	–	4	2	4	2
Total	**120,373**	**108,295**	**94,302**	**87,656**	**214,676**	**195,951**

[1] Restated as set out in note 1 of the Consolidated financial statements.

Unit-linked insurance and investment contracts, net of reinsurance, increased by USD 12.1 billion, or by 11 percent in U.S. dollar terms and 9 percent local currency terms, compared with December 31, 2011, mainly driven by the impact of favorable market movements on investments in Europe.

Other life insurance liabilities, net of reinsurance, increased by USD 6.6 billion, or by 8 percent in U.S. dollar terms and 6 percent on a local currency basis, compared with December 31, 2011, also mainly driven by the impact of favorable market movements on investments in Europe.

Indebtedness

Previously presented details of debt issuances in the Operating and financial review are now set out in note 21 of the Consolidated financial statements.

Capitalization

in USD millions	Shareholders' equity	Non-controlling interests	Total equity
As of December 31, 2011, as previously reported	31,636	2,380	34,017
Total adjustments due to restatement[1]	(153)	109	(44)
As of December 31, 2011, as restated	**31,484**	**2,489**	**33,973**
Proceeds from issuance of share capital	221	–	221
Proceeds from treasury share transactions	30	–	30
Dividends	(1,923)	(43)	(1,966)
Share-based payment transactions	(34)	–	(34)
Change of ownership with no loss of control	(5)	–	(5)
Total comprehensive income	4,721	136	4,856
Net income after taxes	3,878	89	3,967
Net other recognized income and expenses	843	47	890
Net changes in capitalization and non-controlling interests	–	(214)	(214)
As of December 31, 2012	**34,494**	**2,368**	**36,862**

[1] Restated as set out in note 1 of the Consolidated financial statements.

Total equity as restated increased by USD 2.9 billion to USD 36.9 billion, or by 9 percent. This increase was generated principally from total comprehensive income of USD 4.9 billion including USD 4.0 billion from net income after taxes and USD 890 million of net other recognized income. This increase was offset by the deduction of USD 2.8 billion for the dividend of CHF 17.00 per share, which was approved at the Annual General Meeting on March 29, 2012, to be paid out of the capital contribution reserve. Of this USD 2.8 billion, USD 1.9 billion has been included as dividends and USD 840 million has been included in other comprehensive income as cumulative foreign currency translation adjustments. Net other comprehensive income included net unrealized gains on investments of USD 1.7 billion, offset by net actuarial losses on pension plans of USD 451 million and cumulative foreign currency translation adjustment losses of USD 415 million, after including the loss effect of the cumulative translation adjustment on the dividend. The overall decrease of USD 121 million in non-controlling interests arose mainly from the impact of adjustments to the valuation of Zurich Santander and the effects on non-controlling interests from the loss of control over a subsidiary.

The Swiss Solvency Test (SST) became fully effective and mandatory as of January 1, 2011. Under SST, the Group is required to use a company-specific internal model to calculate risk-bearing and target capital and to file SST reports half yearly. For July 1, 2012 the Group filed, on a consolidated basis, an SST capitalization ratio of 178 percent, while the SST capitalization ratio as of January 1, 2012 amounted to 183 percent following a review by FINMA. The internal model continues to be subject to approval by FINMA.

The Group also continues to be subject to Solvency I requirements based on the Swiss Insurance Supervision Law. The Solvency I ratio as of December 31, 2012, increased to 278 percent from 232 percent as of December 31, 2011, after restatement.

Operating and financial review *continued*

Cash flows

Summary of cash flows

in USD millions, for the years ended December 31	**2012**	2011[1]
Net cash provided by operating activities	2,563	3,888
Net cash used in investing activities	(234)	(1,062)
Net cash used in financing activities	(2,318)	(2,439)
Foreign currency translation effects on cash and cash equivalents	187	48
Change in cash and cash equivalents	197	436
Cash and cash equivalents as of January 1	10,162	9,726
Cash and cash equivalents as of December 31	**10,359**	**10,162**

[1] Restated as set out in note 1 of the Consolidated financial statements.

Net cash and cash equivalents increased by USD 197 million for the year ended December 31, 2012 compared with an increase of USD 436 million in 2011. Net cash provided by operating activities, which included cash movements in and out of, as well as within total investments, was USD 2.6 billion for the year ended December 31, 2012. Net cash used in investing activities of USD 234 million related to the increase in the beneficial interest in Zurich Insurance Company South Africa Limited and to payments of deferred purchase price components related to the acquisition of ZIMB in 2011, as well as to sales and purchases of property and equipment. Net cash outflows from financing activities of USD 2.3 billion were primarily related to the payment of the dividend of USD 2.7 billion partially offset by the net issuance of debt of USD 260 million.

Currency translation impact

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

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, 2012	in USD millions	in %
Gross written premiums and policy fees	(2,176)	(4%)
Insurance benefits and losses, gross of reinsurance	1,522	4%
Net income attributable to shareholders	(45)	(1%)
Business operating profit	(71)	(2%)

The Consolidated income statements are translated at average exchange rates. Throughout 2012, the U.S. dollar has on average been stronger against the euro, Swiss franc and British pound, compared with 2011. The net impact on the result has been a reduction in U.S. dollar terms with a decrease in gross written premiums and policy fees partially offset by a decrease in U.S. dollar terms in insurance benefits and losses.

Selected Group balance sheet line items

variance over December 31, 2011, as of December 31, 2012	in USD millions	in %
Total investments	5,904	2%
Reserves for insurance contracts, gross	3,555	1%
Cumulative translation adjustment in shareholders' equity[1]	(440)	(1%)

[1] Restated as set out in note 1 of the Consolidated financial statements.

The Consolidated balance sheets are translated at end-of-period rates. The U.S. dollar has weakened against the British pound, Swiss franc and the euro as of December 31, 2012 compared with December 31, 2011, resulting in an increase in U.S. dollar terms for most balance sheet items. The effects of changes of the major currencies were partially offset by U.S. dollar appreciation against the Brazilian real.

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Risk review

Zurich's approach to risk management aims to protect the Group's capital, enhance value creation, optimize its 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.

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The Risk review is an integral part of the Consolidated financial statements (except for the "Swiss Solvency Test Requirement," "Internal Model Capital Adequacy" and "Conclusion" sections presented on pages 153–161).

Risk review *continued*

Risk management

Mission and objectives of risk management

The mission of risk management at Zurich Insurance 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 (CEO) 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 2012, the Zurich Risk Policy was updated and strengthened for various areas, including actuarial reserving in General Insurance, reinsurance, receivables and operational risk management, particularly outsourcing and business continuity management. Related procedures and risk controls were strengthened or clarified for these areas. As an ongoing process, adherence to requirements stated in the Zurich Risk Policy is assessed.

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. The Zurich Economic Capital Model (Z-ECM) 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, Z-ECM forms the basis for optimizing the Group's risk-return profile by providing consistent risk measurement across the Group. See "Internal model capital adequacy (unaudited)" on page 155 for more information about the Group Risk Tolerance.

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. The Group Chief Risk Officer (Group CRO) consults with the other assurance, control and governance functions to provide the Chief Executive Officer with a review of risk factors to consider in the annual process to determine variable compensation. In 2012, the Group CRO strengthened the process through which the assurance, control and governance functions provide risk and compliance information about each Group Key Risk Taker as part of the annual individual performance assessment. 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 the regulatory principles of 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 and credit risk controls remain "excellent." Market, asset/liability management, reserving, catastrophe 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 and Natural Catastrophe Advisory Council to better understand and assess risks, particularly regarding areas of complex change. For more information on 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.

Risk review *continued*

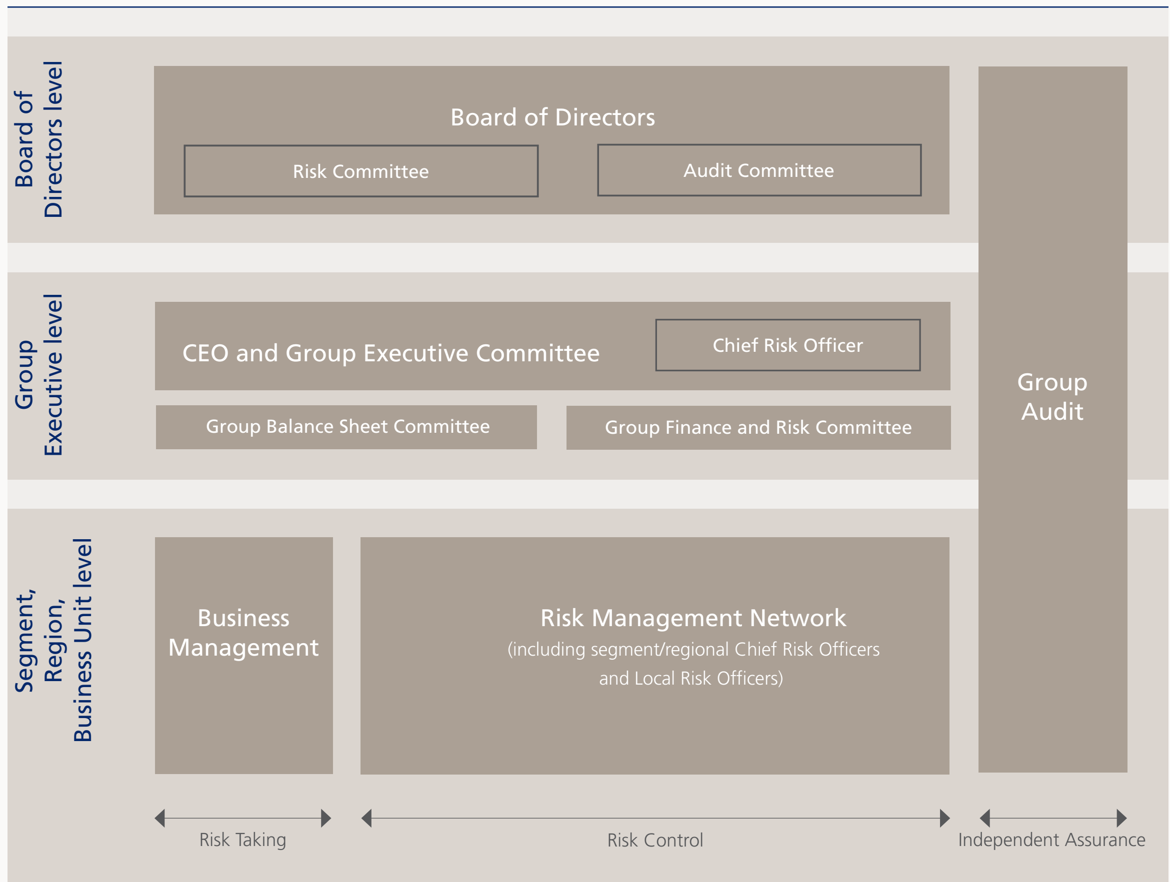
The Group is also involved in a number of international industry organizations engaged in advancing the regulatory dialogue and sound risk management practices pertaining to insurance. Zurich is also a standing member of and actively contributes to the Emerging Risk Initiative of the CRO Forum (an organization 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).

Zurich is a main contributor to the Global Risk Report that is produced by the World Economic Forum in cooperation with external partners (Swiss Re, Marsh & McLennan Companies and the Wharton Center for Risk Management). The report's assessment of the most pressing global risks and the interconnections among them provides valuable information for risk mitigation across the globe. Supporting the report is also part of the Group's commitment to corporate responsibility by sharing Zurich's expertise to help businesses, nations and society.

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 Insurance Group 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 regular 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, at least one board member is a member of both committees. The Risk Committee met seven times in 2012 (once jointly with the Remuneration Committee).

Group Executive level

The Chief Executive Officer, 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, including capital management, reinsurance, asset/liability management, and liquidity. 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.
- General Insurance 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) – defines the Group's reinsurance strategy in alignment with the Group's risk framework and is chaired by the Global Head of Group Reinsurance.

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

Risk review *continued*

Group Risk Management organization

The Chief Risk Officer leads the Group Risk Management function, which develops methods and processes for identifying, measuring, managing, monitoring and reporting 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.

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 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. At the local level, these oversight activities are conducted through risk and control committees or quarterly meetings between senior executives and the local heads of governance functions.

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

The Zurich Economic Capital Model quantifies the internal capital for insurance, market, credit and operational risks. See section "Internal model capital adequacy (unaudited)" starting on page 155.

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 based on work performed by qualified and experienced actuaries at the local, regional and Group level.

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 at least twice a year for on-going business according to agreed timetables. Analyses are performed by product line, type and extent of coverage and year of occurrence. The Group has reserve committees to facilitate communications and reporting regarding reserve opinions. A series of reserve committees feeds from the local level to regions and segments and into a Group reserve committee, where the Group's total loss and loss adjustment expense reserves are consolidated and recommended for approval by 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 (ERG), with cross-functional expertise from core insurance functions such as underwriting, claims and risk engineering in order to identify, assess and recommend actions for such risks on a Group level. In 2012, Group Risk Management also established a Group-wide network of functional experts to support the ERG in covering topics outside the underwriting scope such as political, legal and macro-economic trends or scenarios that may trigger the emergence of risks.

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.

Tables 1.a and 1.b show 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 5.9 billion and USD 5.3 billion for the years ended December 31, 2012 and 2011, respectively. Reinsurance programs such as catastrophe covers are managed on a global basis, and therefore, net premium after reinsurance is monitored on an aggregated basis.

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

Table 1.a

in USD millions, for the year ended December 31, 2012	Motor	Property	Liability	Special lines	Worker injury	Total
North America	1,372	3,225	3,313	1,628	2,463	12,000
Europe	5,854	4,613	2,400	2,029	437	15,333
Other regions[1]	2,364	1,943	462	1,114	176	6,060
Total	**9,590**	**9,782**	**6,175**	**4,771**	**3,075**	**33,393**

[1] Including intercompany eliminations

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

Table 1.b

in USD millions, for the year ended December 31, 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

Risk review *continued*

Sensitivities analysis for general insurance risk

Tables 2.a and 2.b show 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 tables 2.a and 2.b, 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.

Table 2.a

Insurance risk sensitivity for the General Insurance business – current period

in USD millions, for the year ended December 31, 2012	Global Corporate	North America Commercial	Europe	International Markets
+1% in net loss ratio				
Net income before tax	(55)	(76)	(118)	(43)
Net assets	(41)	(57)	(89)	(32)

Table 2.b

Insurance risk sensitivity for the General Insurance business – prior period

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)

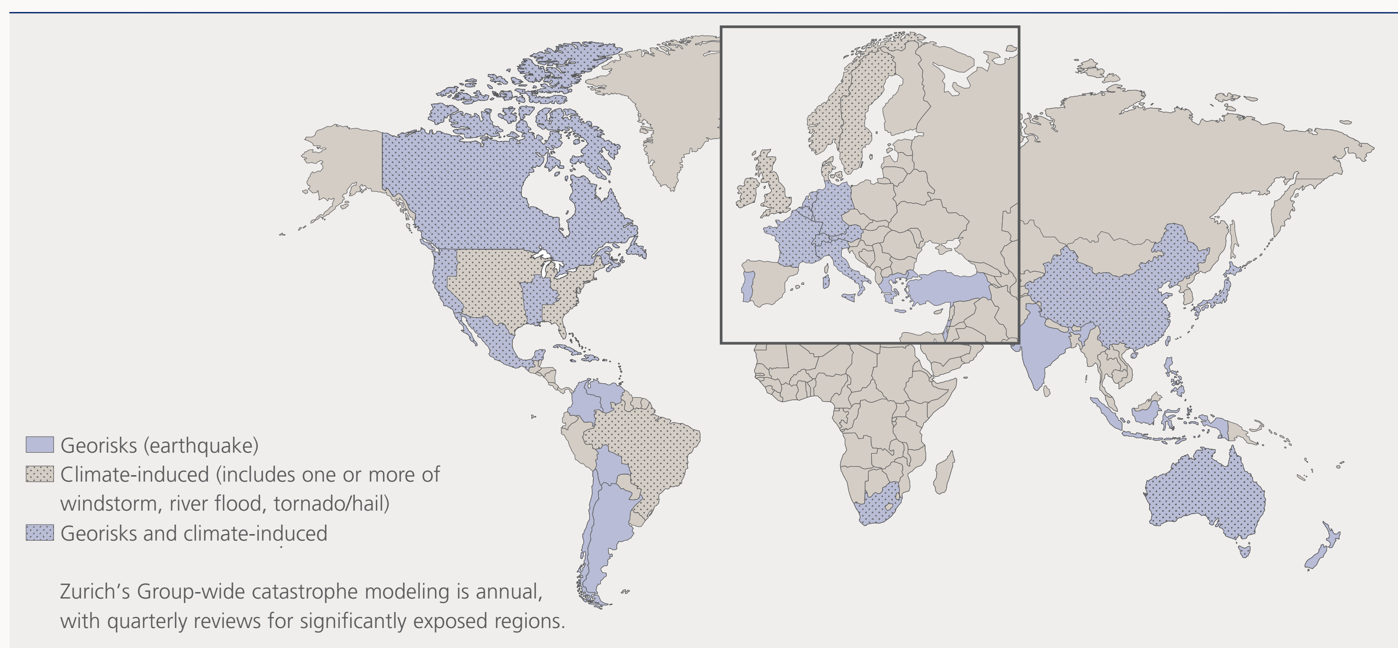
Modeling natural catastrophes

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 exposures 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.

The Group continues to improve the "Zurich view" of catastrophe risk by using output from multiple catastrophe models, by using internal and external expertise, for instance through the Natural Catastrophe Advisory Council, a group of scientists associated with research organizations such as the U.S. National Center for Atmospheric Research, the United States Geological Survey and the Intergovernmental Panel on Climate Change. Zurich further validates modeling results through comparisons with claims experience. In addition, Zurich continues its effort to extend assessments by evaluating potential non-modeled catastrophe hotspots and including appropriate modeling or loadings for non-modeled lines.

Peril regions assessed for 2012



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.

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.

Although the Group's analysis has shown its exposures outside North America are lower, in large part due to government-provided pools; the Group has 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 therefore 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. The Group has 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 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 wrote a small book of variable annuity business in the U.S. with minimum guaranteed death benefits, but ceased writing new business in 2012. 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.

Table 3 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*

Table 3

Reserves, net of reinsurance, by region

in USD millions, as of December 31	Unit-linked insurance contracts		Other life insurance liabilities		Total reserves	
	2012	2011	**2012**	2011	**2012**	2011
Global Life						
North America	627	525	5,307	5,214	5,934	5,739
Latin America	10,256	10,165	5,204	3,400	15,460	13,565
Europe	47,979	44,218	80,468	75,763	128,447	119,981
United Kingdom	28,719	27,064	5,200	5,056	33,919	32,120
Germany	11,095	9,166	43,084	40,004	54,179	49,170
Switzerland	708	639	19,741	18,672	20,450	19,311
Ireland	1,731	880	1,727	1,519	3,458	2,399
Spain	4,808	5,416	5,981	6,007	10,789	11,423
Rest of Europe	918	1,053	4,734	4,505	5,652	5,559
Asia-Pacific and Middle East	3,371	2,420	3,035	3,005	6,406	5,424
Other	10	9	284	273	294	281
Eliminations	–	–	4	2	4	2
Subtotal	**62,243**	57,337	**94,302**	87,656	**156,545**	144,993
Other segments[1]	11,874	11,507	4,915	6,520	16,789	18,027
Total	**74,117**	68,844	**99,217**	94,176	**173,334**	163,020

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

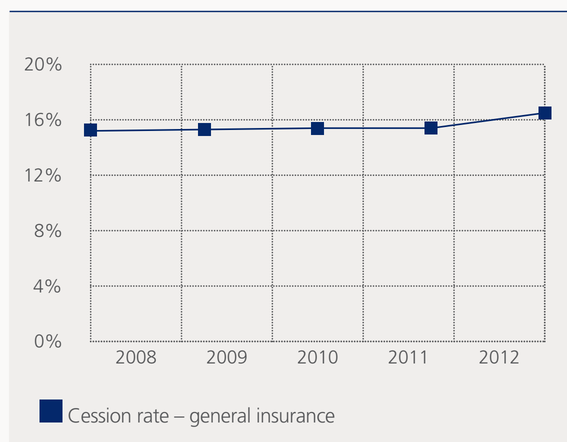
Reinsurance for general insurance and life insurance

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 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 business 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 charts below.

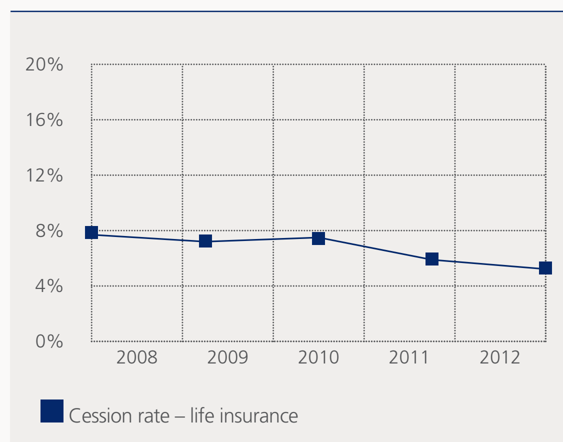
Ceded premium – trend

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



Ceded premium – trend

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



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.

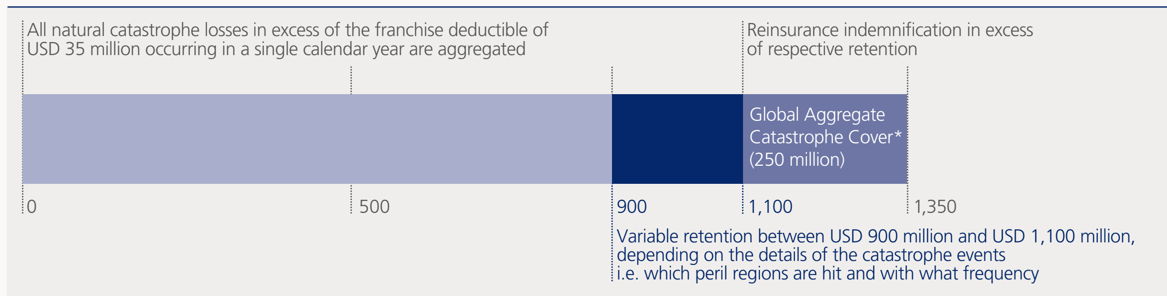
The Group uses reinsurance to manage risk to unusually severe or unusually frequent events, as illustrated on the following page, through the main in-force reinsurance covers as of December 31, 2012 for natural catastrophe events. The Group participates in the underlying risks through its retention and 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. The current covers are placed annually: January 1 for the U.S. Program and the Global Aggregate Catastrophe Cover; April 1 for the European Program and July 1 for the Rest of the World Program.

In 2012, the only major natural catastrophe event to affect the Group was Storm Sandy; the Group's reinsurance covers allowed Zurich to limit the pre-tax net impact to USD 756 million. (This figure includes the reinstatement premium payable to reinsurers and the impact from Farmers Re.)

Risk review *continued*

Reinsurance for natural catastrophes – unusually severe natural catastrophe events
(in USD millions, as of December 31, 2012)

Reinsurance for natural catastrophes – unusually frequent natural catastrophe events
(in USD millions, as of December 31, 2012)



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

U.S. Catastrophe Treaty (USD 1,100 million)	Co-participation varies by layer and is approximately 36% overall.
European Catastrophe Treaty (USD 1,400 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 and real estate. 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 residential mortgage-backed securities

Risk review *continued*

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. Therefore, 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 limits for holdings in equities, real estate and alternative investments.

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

Risk from interest rate and credit spread

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.

Risk management initiatives during 2012

Throughout the year, the Group closely monitored the investment risk taken in a challenging financial market environment, and several actions were taken in order to reduce risks from equities, interest rates, and credit spreads. On equity risk, macro hedges have been implemented to reduce the tail risk to Asian, European and U.S. markets. On interest rate risk, duration mismatch has been further reduced through duration lengthening, in particular in Europe.

In addition, changes in the economic, legal and regulatory environment in Germany have been reflected in the modeling and contributed to the significant reduction in interest rate exposures from the German life business. These changes are driving the movements in the interest rate and credit spread sensitivities from the euro (EUR) in tables 5.a, 5.b, 11.a and 11.b.

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. In the sensitivities, own debt does not include subordinated debt, which Zurich considers available to protect policyholders in a worst-case situation.

Tables 4.a, 4.b, 6.a and 6.b 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 businesses. 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. In order to limit the economic impact of interest rate, equity and real estate risk, Zurich has limits on holdings in real assets and limits on deviations of asset interest rate sensitivities from liability interest rate sensitivities.

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.

Tables 6.a and 6.b 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 stoarkets.
- 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. For more information on stress scenarios, see table "Sensivities for the Z-ECM ratio (unaudited)" on page 159.
- 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 24.7 percent for 2012. For 2011, it is calculated at 24.1 percent. For the Non-Core Businesses with life insurance characteristics, specific tax rates have been applied.

Basis of presentation – Global Life

Tables 5.a and 5.b 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

Tables 4.a through 6.b 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, 2012 and 2011, 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, 2012	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(1,314)	(578)	(352)	(341)	(186)	**(2,772)**
Liabilities	(1,146)	(411)	(368)	(364)	(109)	**(2,397)**
Net impact before tax	(168)	(167)	16	22	(78)	**(375)**
Tax impact	42	41	(4)	(6)	19	**93**
Net impact after tax	(127)	(126)	12	17	(59)	**(282)**
100 basis points decrease in the interest rate yield curves						
Group investments	1,005	490	351	237	184	**2,266**
Liabilities	1,049	342	391	334	111	**2,228**
Net impact before tax	(44)	147	(41)	(97)	73	**38**
Tax impact	11	(36)	10	24	(18)	**(9)**
Net impact after tax	(33)	111	(31)	(73)	55	**29**

Table 4.b

Economic interest rate sensitivities for the General Insurance business – prior 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	30	(27)	18	25	(12)	**32**
Net impact after tax	(93)	85	(55)	(77)	39	**(102)**

Table 5.a

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

in USD millions, as of December 31, 2012	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Total impact on Embedded Value	(130)	(165)	(98)	142	(100)	**(350)**
100 basis points decrease in the interest rate yield curves						
Total impact on Embedded Value	61	365	111	(140)	68	**465**

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

Table 5.b

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

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

Table 6.a

in USD millions, as of December 31, 2012	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in the interest rate yield curves						
Group investments	(831)	(148)	(22)	(36)	(1)	**(1,037)**
Liabilities	(585)	(166)	(28)	(117)	–	**(898)**
Net impact before tax	(246)	19	7	82	(1)	**(139)**
Tax impact	66	(5)	(2)	(20)	–	**39**
Net impact after tax	(180)	14	5	61	–	**(100)**
100 basis points decrease in the interest rate yield curves						
Group investments	895	111	22	26	1	**1,055**
Liabilities	643	140	28	34	–	**845**
Net impact before tax	252	(29)	(6)	(8)	1	**210**
Tax impact	(64)	7	2	2	–	**(53)**
Net impact after tax	189	(22)	(5)	(6)	–	**157**

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

Table 6.b

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	**195**

Risk review *continued*

Analysis of economic sensitivities for equity risk

Tables 7 through 9 show the estimated impacts from a 10 percent decline in stock markets, after consideration of hedges in place, as of December 31, 2012 and 2011, respectively.

Economic equity price sensitivities for the General Insurance business

Table 7

in USD millions, as of December 31	2012	2011
10% decline in stock markets		
Group investments	(456)	(473)
Liabilities	–	–
Net impact before tax	(456)	(473)
Tax impact	113	115
Net impact after tax	(343)	(359)

Economic equity price sensitivities for the Global Life business

Table 8

in USD millions, as of December 31	2012	2011
10% decline in stock markets		
Total impact on Embedded Value	(246)	(298)

Economic equity price sensitivities for the rest of the businesses

Table 9

in USD millions, as of December 31	2012	2011
10% decline in stock markets		
Group investments	(171)	(117)
Liabilities	34	57
Net impact before tax	(205)	(174)
Tax impact	49	42
Net impact after tax	(156)	(132)

Analysis of economic sensitivities for credit spread risk

Tables 10.a through 12.b show the estimated impacts from a 100 basis points increase in corporate credit spreads, as of December 31, 2012 and 2011, 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, 2012	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(939)	(278)	(198)	(160)	(102)	**(1,677)**
Tax impact	232	69	49	39	25	**414**
Net impact after tax	(707)	(209)	(149)	(120)	(77)	**(1,262)**

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

Table 10.b

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	233	81	42	35	32	**422**
Net impact after tax	(731)	(253)	(131)	(108)	(100)	**(1,322)**

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

Table 11.a

in USD millions, as of December 31, 2012	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Total Impact on Embedded Value	(189)	(282)	(100)	(250)	(130)	**(951)**

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

Table 11.b

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 Embedded Value	(191)	(612)	(113)	(224)	(88)	**(1,229)**

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

Table 12.a

in USD millions, as of December 31, 2012	USD	EUR	GBP	CHF	Other currencies	Total
100 basis points increase in credit spreads						
Net impact before tax	(320)	(74)	2	(3)	–	**(396)**
Tax impact	89	18	–	1	–	**108**
Net impact after tax	(231)	(56)	1	(3)	–	**(288)**

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

Table 12.b

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	157	4	3	1	–	**164**
Net impact after tax	(364)	(13)	(8)	(2)	(1)	**(388)**

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. In December 2012, the Group started to apply net investment hedge accounting in order to protect against the effects of changes in certain exchange rates on selected net investments. The Group does not take speculative positions on foreign currency market movements. Using constant exchange rates from one year to the next, the Group's 2012 net income attributable to shareholders would have been higher by USD 45 million (applying 2011 exchange rates to the 2012 result). In 2011 the result would have been lower by USD 78 million (applying 2010 exchange rates to the 2011 results).

Table 13 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 table 13 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, 3 and 7 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	**2012**	2011[1]
10% increase in		
EUR/USD rate	877	769
GPB/USD rate	389	354
CHF/USD rate	(253)	(309)
Other currencies/USD rates	774	752

[1] Restated as set out in note 1 of the Consolidated financial statements.

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 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 risks embedded in reinsurance captives, deductibles, trade credit and surety.

Macro review of the credit risk environment

During 2012, the European government-debt crisis led to ongoing downgrades of governments and government-related financial institutions. Spain and Italy and their financial institutions were downgraded by several notches. The negative trend spilled over to stronger governments such as France, which was downgraded by Moody's in November and the UK, which was placed on watch negative. Nevertheless, credit risk pressures have diminished significantly as reflected in improved implied ratings for sovereign debt markets. Zurich continues to assess the potential effect of remaining uncertainties, as actions by policymakers are the main determinants of credit market valuations for governments and related institutions.

Credit risk concentration

The Group regularly monitors and limits credit exposures by individual counterparty and related counterparties by the aggregated exposure across 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 assessments, 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 credit 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, 2012 and December 31, 2011, respectively. The Chief Risk Officer routinely reports the largest exposures 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 20 million and USD 57 million as of December 31, 2012 and 2011, 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 the analysis of fundamentals and market indicators into account.

Cash and cash equivalents amounted to USD 9.1 billion as of December 31, 2012 and USD 8.9 billion as of December 31, 2011. The risk-weighted average rating of the overall cash portfolio has decreased from "A+" to "A" in 2012 due to downgrades of several large financial institutions. 60 percent of the total was with the ten largest global banks, whose average rating was "A+" as of December 31, 2012 and December 31, 2011, respectively.

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. Table 14 shows the credit risk exposure on debt securities, by issuer credit rating.

Debt securities by rating of issuer

Table 14

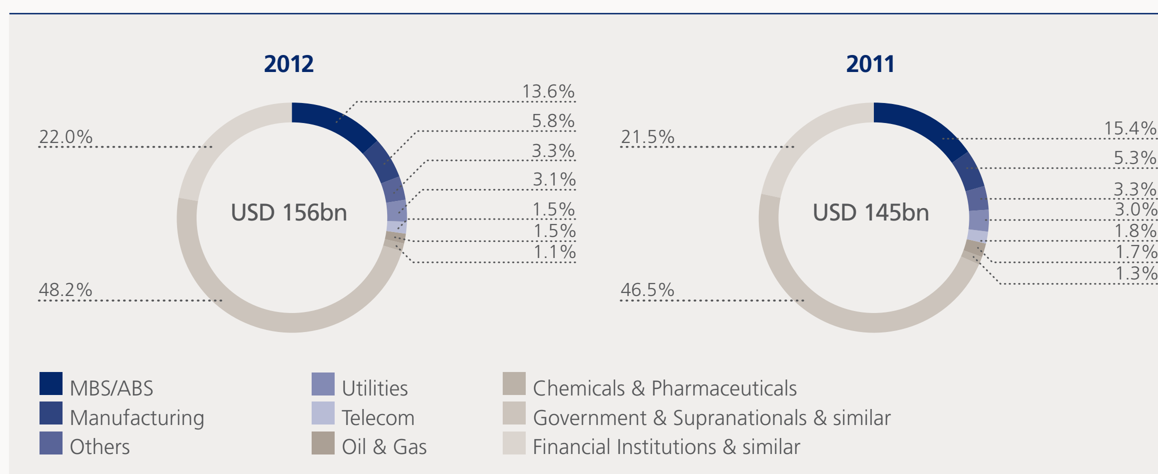
as of December 31	2012		2011	
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	48,590	31.2%	54,951	38.0%
AA	48,046	30.9%	37,395	25.9%
A	26,982	17.3%	35,470	24.6%
BBB	29,034	18.7%	13,626	9.4%
BB and below	2,477	1.6%	2,519	1.7%
Unrated	465	0.3%	551	0.4%
Total	**155,594**	**100.0%**	**144,511**	**100.0%**

As of December 31, 2012, investment grade securities comprise 98.1 percent of the Group's debt securities, and 31.2 percent were rated "AAA." The downgrades of several Eurozone governments and related entities caused breaches of internal rating category limits, which were managed as circumstances allowed. As of December 31, 2011, investment grade securities comprised 97.9 percent of debt securities, and 38.0 percent were rated "AAA." The Group's investment policy prohibits speculative grade investments, unless specifically authorized and under exceptional circumstances. Where the Group identifies investments expected to be downgraded to below investment grade, it implements appropriate corrective actions.

The Group measures the average issuer credit rating both with a linear and a risk-weighted scale. Despite the ongoing de-risking of the fixed income portfolio, the risk-weighted average issuer credit rating of the Group's debt securities portfolio is "A–/BBB+" (2011: "A+"). This is mainly due to ongoing downgrades of governments and government-related financial institutions in 2012 and the increase in value of the affected investments. Based on the linear scale, the average rating is "AA–"(2011: "AA") and therefore in line with the "AA–" target rating as set out in the Group's risk policy.

Debt securities – credit risk concentration by industry

(%, as of December 31)



As of December 31, 2012 the largest concentration in the Group's debt securities portfolio is in government and supranational debt securities at 48.2 percent. A total of USD 40.3 billion or 49.5 percent of the non-government and non-supranational debt securities are secured. As of December 31, 2011, 46.6 percent of the Group's debt portfolio was invested in governments and supranationals and a total of USD 38.7 billion or 50.1 percent of the non-government and non-supranational debt securities were secured.

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

Table 15

in USD millions, as of December 31	2012	2011
Germany	9,282	8,150
France	4,638	3,895
Austria	2,892	2,318
Belgium	1,959	1,585
Netherlands	2,122	1,711
Peripheral	11,301	10,607
Greece	–	8
Ireland	243	310
Italy	6,646	5,330
Portugal	531	424
Spain	3,881	4,536
Rest of Eurozone	974	607
Eurozone Supranationals & similar	1,058	782
Total	**34,226**	**29,656**

As shown in table 15, the Group had debt exposure to Eurozone nations of USD 34.2 billion and USD 29.7 billion as of December 31, 2012 and 2011, respectively. Exposure to Greece, Ireland, Italy, Portugal and Spain amounted to USD 11.3 billion and USD 10.6 billion as of December 31, 2012 and 2011, respectively, with the increase primarily driven by tightening credit spreads. In line with the Group's risk strategy, the Group capped cross-border investments in governments in the peripheral countries of Europe, while retaining in those countries government exposures that back underlying business. In addition to the debt exposure, the Group had sovereign loan exposure of USD 4.7 billion and USD 4.9 billion to Germany as of December 31, 2012 and 2011, respectively.

The second largest concentration in the Group's debt securities portfolio is to financial institutions (including banks), at 22.0 percent, of which 48.7 percent is secured. In response to the European government-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 governments.

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–." 58 percent and 57 percent of the business ceded to reinsurers that fall below "A–" or are not rated is collateralized, as of December 31, 2012 and 2011, respectively. Of these percentages, 50 percent and 52 percent are ceded to captive insurance companies, in 2012 and 2011, respectively.

Reinsurance assets include reinsurance recoverables of USD 19.7 billion and USD 19.5 billion as of December 31, 2012 and 2011, respectively, which are the reinsurers' share of reserves for insurance contracts, and receivables arising from ceded reinsurance, gross of allowance for impairment, of USD 1.1 billion and USD 1.2 billion as of December 31, 2012 and 2011, respectively. Reserves for potentially uncollectible amounts of reinsurance assets amount to USD 206 million as of December 31, 2012 and 2011. 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 table 16 are shown before taking into account 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 to December 31, 2011, collateral decreased by USD 100 million to USD 8.1 billion.

The risk-weighted average credit quality of reinsurance assets (including receivables, but after deduction of collateral) was "A" as of December 31, 2012 and 2011. 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.

Table 16 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	**2012**				2011			
	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	77	1.2%	42	0.2%	75	1.1%	91	0.4%
AA	1,434	22.1%	8,852	42.6%	1,109	16.9%	6,631	32.0%
A	2,279	35.2%	6,959	33.5%	3,260	49.8%	9,527	46.0%
BBB	800	12.4%	2,080	10.0%	708	10.8%	1,887	9.1%
BB	213	3.3%	425	2.0%	185	2.8%	417	2.0%
B	34	0.5%	42	0.2%	45	0.7%	103	0.6%
Unrated	1,644	25.4%	2,390	11.5%	1,168	17.8%	2,042	9.9%
Total	**6,481**	**100.0%**	**20,791**[1]	**100.0%**	**6,550**	**100.0%**	**20,698**[1]	**100.0%**

[1] The value of the collateral received amounts to USD 8.1 billion and USD 8.2 billion as of December 31, 2012 and 2011, 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 and adapted and approved by local investment committees. Conservative lending criteria (i.e. maximum mortgage loan to property value ratios) and the diversification of loans across many single borrowers, particularly in Germany and in Switzerland, help reduce potential loss. Dunbar Assets Ireland (formerly 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 4.8 billion) and in Switzerland (USD 4.1 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.

In Switzerland, the residential property market has seen steady price growth since 2000 and fast growth in the past five years, raising concerns about the development of a price bubble. Residential property price increases have been strongest in the main economic centers and more moderate in the rest of the country; residential prices in the Lake Geneva region have more than doubled since 2000, and in the Cantons of Zurich and Zug have increased by 60% and 95% respectively in the same period. In 2012, outstanding mortgages in the Lake Geneva region represent approximately 32% of the Swiss portfolio. Mortgages in the Canton of Zurich and in the Canton of Zug represent 35% and 1.6% of the Swiss portfolio respectively. The bulk of those mortgages was granted before 2008 and is therefore not affected by price developments in the last five years. In Germany, residential prices have started to rise in the major cities, and in line with the Group's investment policy, mortgage exposure has been reduced. To mitigate the impact of potential bubbles in the portfolio, the Group has a process to regularly review regional property markets, and to tighten underwriting standards in areas with strong price appreciation. Zurich's German and Swiss mortgage portfolios remain strong and well managed; LTV lending buffers are generally strong, and loss impairments and losses remain low.

The next largest portfolio comprises loans granted by Dunbar Assets Ireland (including the UK property loans of Dunbar Assets plc) of USD 1.1 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, these entities 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 Dunbar Assets Ireland now stand at a significant USD 711 million (USD 631 million in 2011) or 39 percent and 31 percent of the portfolio as of December 31, 2012 and December 31, 2011 respectively; this accordingly reduces the carrying balance of net loans outstanding. Property valuations at Dunbar Assets Ireland 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.

Mortgage loans given as collateral were related to a single bank borrowing that expired in 2012. At the expiration date of the loan, the mortgages were returned to Zurich Deutscher Herold Lebensversicherung AG, and as of December 31, 2012 there are no mortgages given as collateral outstanding. See note 15 of the Consolidated financial statements.

Risk review *continued*

Credit risk related to other loans

The credit risk arising from other loans is assessed and monitored together with the fixed income securities portfolio. 66.1 percent of the reported loans are to municipalities or government or supranational institutions, of which 97.6 percent are to the German Central Government or the German Federal States. Table 17 shows the composition of the loan portfolio by rating class. As of December 31, 2012, a total of USD 8.0 billion or 68.3 percent of loans are secured. As of December 31, 2011, a total of USD 7.6 billion or 72.9 percent of loans were secured.

Table 17

Other loans by rating of issuer

as of December 31		2012		2011
	USD millions	**% of total**	USD millions	% of total
Rating				
AAA	5,725	46.1%	6,761	56.6%
AA	1,934	15.6%	2,093	17.5%
A	1,805	14.5%	1,739	14.6%
BBB and below	1,281	10.3%	748	6.3%
Unrated	1,678	13.5%	501	4.2%
Total	**12,423**	**100.0%**	**11,944**	**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 2012, the Group continued efforts to reduce past due receivables through both short- and long-term initiatives to improve processes and systems. In addition, a stricter policy and standardized monitoring were implemented.

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 over-the-counter 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

Tables 18.a through 19.b 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, 2012	Debt securities	Mortgage loans	Mortgage loans given as collateral	Other loans	Receivables and other financial assets	Total
Neither past due nor impaired financial assets	**155,182**	**9,318**	**–**	**12,423**	**14,491**	**191,414**
Past due but not impaired financial assets. Past due by:						
1 to 90 days	–	185	–	–	1,207	1,392
91 to 180 days	–	80	–	–	290	370
181 to 365 days	–	107	–	–	223	330
> 365 days	–	165	–	–	305	469
Past due but not impaired financial assets	**–**	**537**	**–**	**–**	**2,024**	**2,561**
Financial assets impaired	**412**	**1,397**	**–**	**1**	**248**	**2,057**
Gross carrying value	**155,594**	**11,252**	**–**	**12,424**	**16,764**	**196,033**
Less: impairment allowance						
Impairment allowances on individually assessed financial assets	–	696	–	–	117	814
Impairment allowances on collectively assessed financial assets	–	37	–	–	210	247
Net carrying value	**155,594[1]**	**10,519[2]**	**–**	**12,423**	**16,437**	**194,972**

[1] Available-for-sale debt securities are included net of USD 12 million of impairment charges recognized during the year.
[2] USD 385 million past due but not impaired and USD 1.4 billion impaired mortgage loans relate to the run-off property loans at Dunbar Assets Ireland.

Group performance review

Risk review *continued*

Analysis of financial assets – prior period

Table 18.b

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	**144,050**	**9,867**	**215**	**11,943**	**14,173**	**180,248**
Past due but not impaired financial assets. Past due by:						
1 to 90 days	–	242	4	1	1,086	1,333
91 to 180 days	–	58	1	–	261	319
181 to 365 days	–	95	1	–	189	285
> 365 days	–	149	2	–	312	462
Past due but not impaired financial assets	**–**	**543**	**7**	**1**	**1,848**	**2,399**
Financial assets impaired	**461**	**1,293**	**–**	**–**	**198**	**1,953**
Gross carrying value	**144,511**	**11,703**	**223**	**11,944**	**16,219**	**184,600**
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	**144,511**[1]	**11,058**[2]	**223**	**11,944**	**15,899**	**183,634**

[1] Available-for-sale debt securities are included net of USD 55 million of impairment charges recognized during 2010.
[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 Dunbar Assets Ireland.

Tables 19.a and 19.b show how the allowances for impairments of financial assets in tables 18.a and 18.b have developed over the 2011 and 2012 financial years.

Development of allowance for impairments – current period

Table 19.a

in USD millions	Mortgage loans	Other loans	Receivables
As of January 1, 2012	645	–	320
Increase/(Decrease) in allowance for impairments	69	13	39
Amounts written-off	(4)	(13)	(37)
Transfers	–	–	–
Foreign currency translation effects	23	–	5
As of December 31, 2012	**733**	**–**	**327**

Development of allowance for impairments – prior period

Table 19.b

in USD millions	Mortgage loans	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.)

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.

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 2012, 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.

Tables 20.a and 20.b provide 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, 2012 and 2011. Reserves for unit-linked insurance contracts amounting to USD 74.1 billion and USD 68.8 billion as of December 31, 2012 and 2011, respectively, are not included, 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, 2012	Reserves for losses and loss adjustment expenses	Future life policyholders' benefits	Policyholders' contract deposits and other funds	Total
< 1 year	17,288	8,188	1,370	26,846
1 to 5 years	23,688	20,807	2,208	46,704
5 to 10 years	8,465	14,448	1,859	24,772
10 to 20 years	5,612	18,896	2,361	26,869
> 20 years	2,332	18,960	10,119	31,411
Total	**57,385**	**81,300**	**17,917**	**156,602**

Table 20.b

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

in USD millions, as of December 31, 2011	Reserves for losses and loss adjustment expenses	Future life policyholders' benefits	Policyholders' contract deposits and other funds	Total
< 1 year	14,395	6,231	1,551	22,176
1 to 5 years	21,862	23,113	2,300	47,275
5 to 10 years	8,783	14,556	1,829	25,168
10 to 20 years	7,047	16,545	2,274	25,866
> 20 years	3,255	17,557	8,221	29,032
Total	**55,341**	**78,001**	**16,175**	**149,517**

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

Tables 21.a and 21.b provide an analysis of the maturity of liabilities for investment contracts based on expected cash flows as of December 31, 2012 and 2011. The undiscounted contractual cash flows for liabilities for investment contracts are USD 58.3 billion and USD 51.3 billion as of December 31, 2012 and December 31, 2011, respectively. Liabilities for unit-linked investment contracts amount to USD 50.9 billion and USD 44.2 billion as at December 31, 2012 and 2011, 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 958 million and USD 950 million as of December 31, 2012 and 2011 respectively. The Group actively manages 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, 2012	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	4,441	172	295	4,908
1 to 5 years	6,468	799	1,333	8,600
5 to 10 years	6,966	173	1,068	8,207
10 to 20 years	9,435	115	940	10,490
> 20 years	23,612	46	2,267	25,925
Total	**50,923**	**1,305**	**5,903**	**58,131**

Table 21.b

Expected maturity profile for liabilities for investment contracts – prior 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	252	276	4,422
1 to 5 years	5,802	542	1,339	7,683
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**	**1,131**	**5,607**	**50,958**

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.

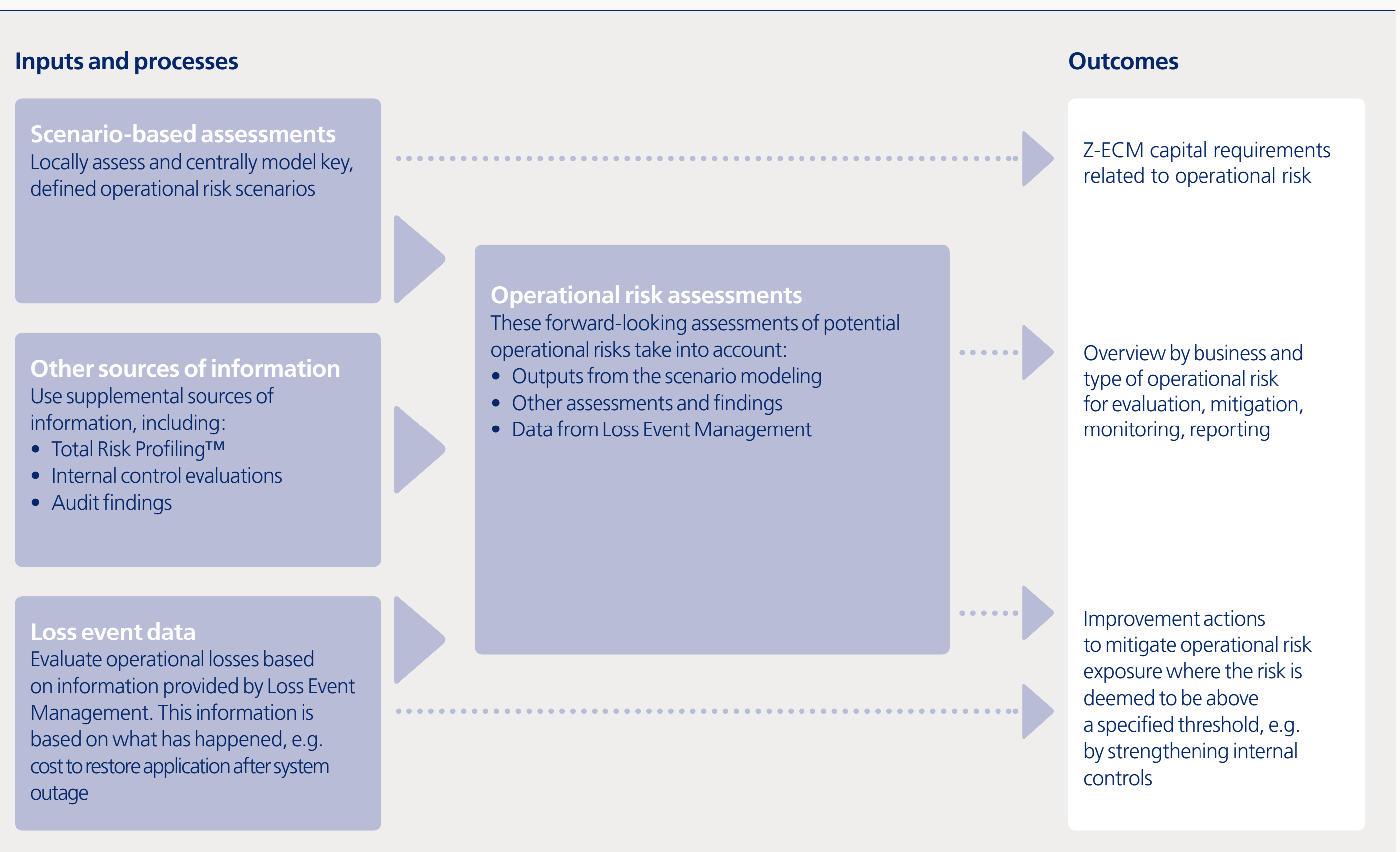
Risk review *continued*

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, model and quantify the capital required for operational risk for business units under extreme circumstances (internal model calibrated to a confidence level of 99.95 percent over a one-year time horizon). This approach allows comparison of information across the Group and highlights the main scenarios contributing to the Z-ECM capital required. See chart "Z-ECM capital required for operational risk split by risk scenarios (unaudited)" on page 157 for more information.
- 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. 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.

Issues identified, including financial adjustments in the General Insurance business in Germany, have been communicated to the Board and either have been or are being addressed by the Group.

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 improvement program with special emphasis on protecting customer information, improving security with its suppliers and monitoring that access to information is properly controlled. This helps the Group to better protect information assets and ensure compliance with regulation and policies.

A key task is maintaining and developing capability of the Group's business continuity with an emphasis on recovery from events such as natural catastrophe and the possibility of a pandemic. The Group continued to develop its existing business continuity capability by further 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 2012, 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 over financial reporting, internal control efforts also include related operational and compliance controls. Therefore, the Group continues to strengthen the robustness, 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 on controls supporting the financial statements. 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

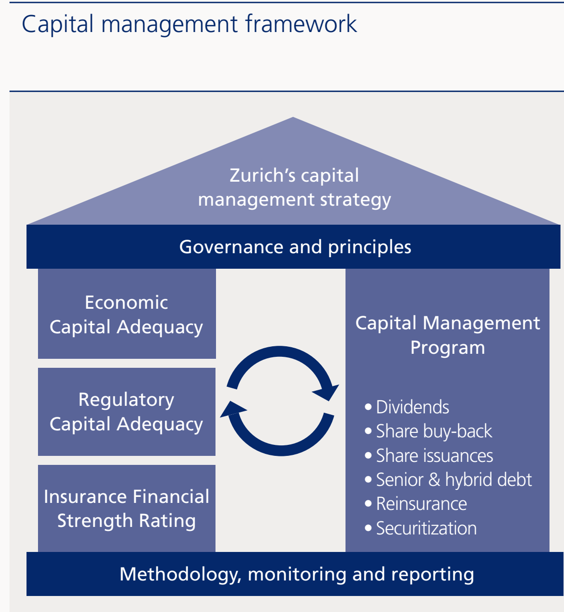
The Group's capital management strategy is to maximize long term shareholder value by optimizing capital allocation while managing the balance sheet at "AA" level and in accordance with regulatory, solvency and rating agency requirements. In particular, the Group endeavors to manage its capital such 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 2012, 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 Insurance Group 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, 2012, 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.

The Group maintained its strong rating level and its stable outlook in 2012. As of December 31, 2012 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.

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.

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.

Risk review *continued*

Regulatory requirements in Switzerland

In Switzerland, under the Swiss Solvency Test (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 2012, 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 2012, without prejudicing the final approval of the internal model. Zurich has filed an SST ratio with FINMA in excess of the regulatory requirements, both as of January 1, 2012 and as of July 1, 2012. For more details, see the "Swiss Solvency Test requirement" section in the Risk review.

Regulatory requirements in the European Economic Area

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 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 aims to reflect 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 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 Zurich Insurance plc (Ireland). The Group has started the pre-application process in order to gain regulatory approval for the internal model from the Central Bank of Ireland, the Group's EU lead regulator.

Regulatory requirements in the U.S.

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.

Solvency I requirements at Group level

The Group continues to be subject to Solvency I requirements based on the Swiss Insurance Supervisory Law. Table 22 sets out the Solvency I position as drafted for filing with the Swiss regulator for 2012 and a restated position for 2011. See Note 1 of the Consolidated financial statements for more information.

Table 22

The Group's Solvency I composition

in USD millions, as of December 31	2012	2011
Eligible equity		
Total equity	**36,862**	**33,973**
Net of intangibles and other assets	(8,501)	(8,851)
Free reserves for policyholder dividends	5,238	3,032
Subordinated debt[1]	5,709	4,854
Deferred policyholder acquisition costs non-life insurance	(3,088)	(3,043)
Dividends, share buy-back and nominal value reduction	(2,730)[2]	(2,647)
Total eligible equity	**33,488**	**27,317**
Total required solvency capital	**12,031**	**11,789**
Excess margin	**21,458**	**15,528**
Solvency I ratio	**278%**	**232%**

[1] 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.
[2] Amount for dividend reflects the proposed dividend for the financial year 2012, not yet approved by the Annual General Meeting.

As of December 31, 2012 and 2011 respectively, the Group and its material, regulated subsidiaries complied with the applicable regulatory minimum capital requirements.

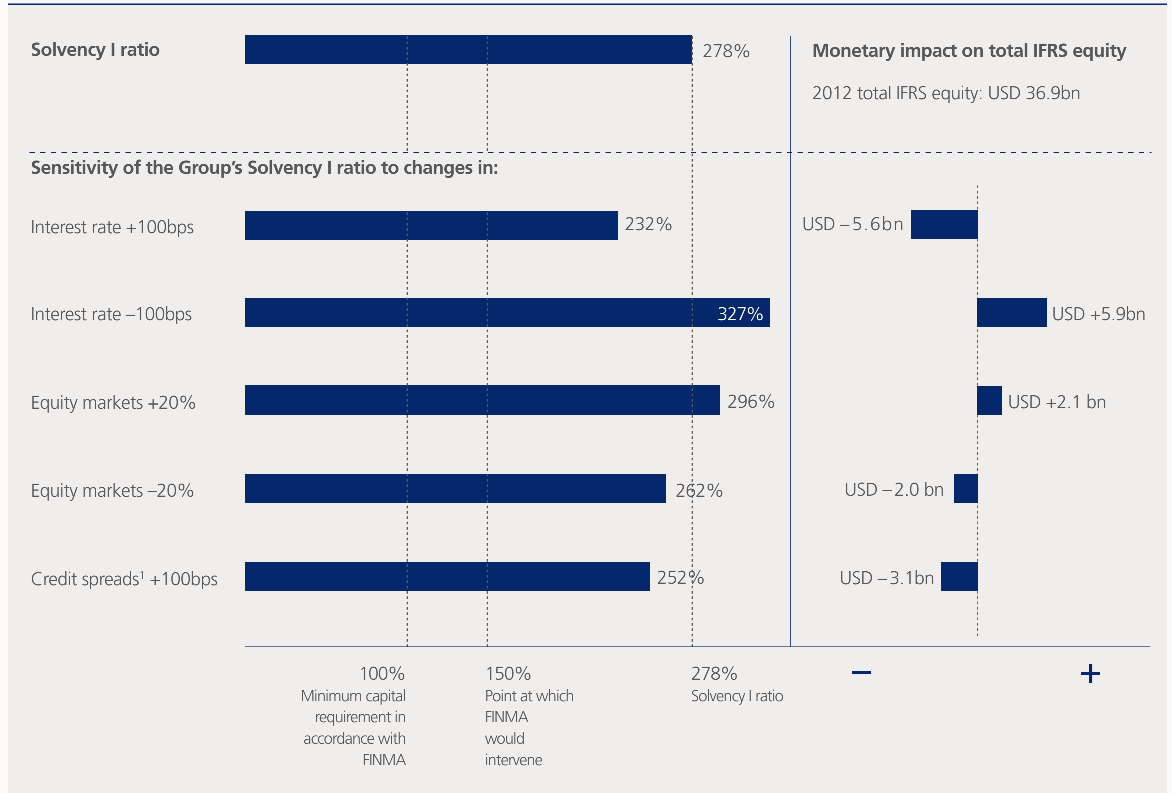
The following chart shows the estimated impact on the Group's solvency position of a one percentage point increase/decrease in yield curves, a separate 20 percent rise/decline in all stock markets, after consideration of hedges in place and a separate one percentage point change in credit spreads, as of December 31, 2012. The sensitivities are considered 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 24.7 percent in 2012. 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
(as of December 31, 2012)



[1] The credit spread sensitivity is applied to corporate debt, mortgages and euro currency government debt (excluding Germany).

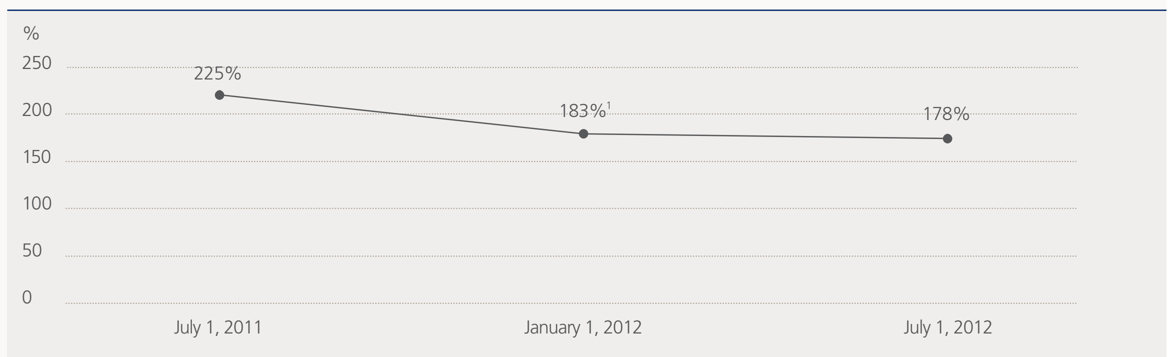
Beginning of unaudited sections.

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 Zurich Economic Capital Model (Z-ECM) 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 Z-ECM, 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 Switzerland" section in the Risk review.

The Group has filed with FINMA an SST ratio of 178 percent as of July 1, 2012, which is a slight deterioration compared to January 1, 2012 when the ratio was 183 percent.

Development of the Group's Swiss Solvency Test ratio
(in %)

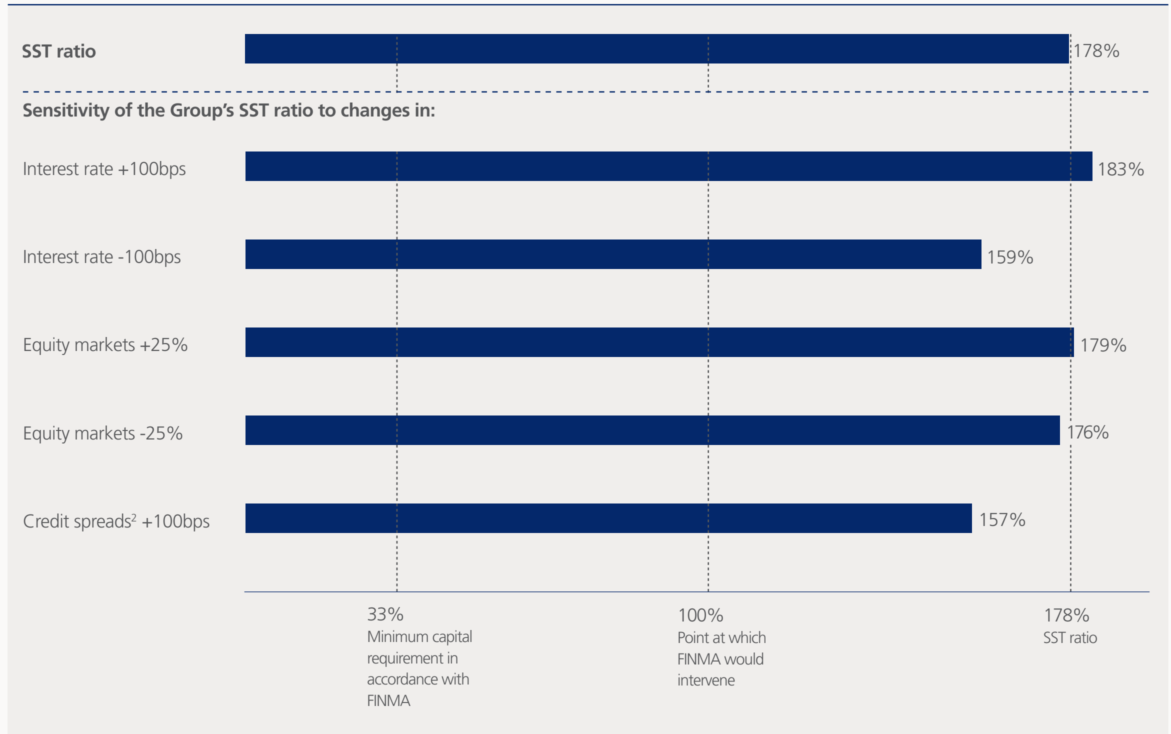


[1] After FINMA adjustment to remove USD 500m hybrid bond issued on 18 January 2012

Risk review *continued*

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, 2012. The sensitivities are considered separate but instantaneous scenarios.

Sensitivities for the Group's Swiss Solvency Test ratio[1]
(as of July 1, 2012)



[1] Does not include sensitivities to the underlying assets and liabilities related to the transaction with Zurich Santander. (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 government debt (excluding Germany). The credit spread sensitivity does not take into account the buffering effect of policyholder participation.

Internal model capital adequacy

Internally, the Group uses its Zurich Economic Capital Model (Z-ECM), which also forms the basis of the SST model. The Z-ECM targets a total capital level that is calibrated to an "AA" financial strength. Zurich defines the Z-ECM capital required 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 Z-ECM and the SST models are overall very similar, below is a summary of the main differences between the two approaches.

Group's Risk Tolerance

Z-ECM ratio	Range	Action
above 120%	>120%	Consider increased risk taking or remedial actions
100%–120%	**100-120% "AA" Target Range**	**No action required as within stated objective and equivalent to "AA" rating**
90%–100%	90-100%	Position may be tolerated for a certain time depending on the risk environment
0%–90%	<90%	Z-ECM ratio below Group risk tolerance level, requiring appropriate remedial actions and implementation of de-risking measures

Comparison between Z-ECM and SST

Key parameters	Z-ECM	SST
Calibration	VaR 99.95% comparable to "AA"	Expected shortfall 99% comparable to "BBB"
Risk-free yield curve	Swap rates (without liquidity premium)	Government rates (without liquidity premium) (German Bund for EUR)[1]
Operational risk	Included	Considered only qualitatively
FINMA Add-on	Not reflected	Uplift to market/ALM and credit risk
Treatment of senior debt	Available capital	Liability
Business risk (expense risk) for General Insurance	Fully Included	Included in stress scenarios
Extreme market risk scenarios	Included as stress buffer in ALM	Aggregated to the overall result

■ Results in either higher capital requirements or lower available financial resources, or both.

[1] In the Circular "Temporary Adjustments to the Swiss Solvency Test (SST)", in force since January 1, 2013, FINMA allows insurers to use swap rates minus 10 bps as a reference rate.

The Group uses Z-ECM to assess the economic capital consumption of its business on a one-balance-sheet approach. The Z-ECM framework is an integral part of how the Group is managed. The Z-ECM 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. Z-ECM quantifies the capital required for insurance-related risk (including premium and reserve, natural catastrophe, business and life insurance), market risk (market/ALM), credit risk (including reinsurance credit and investment credit) and operational risks.

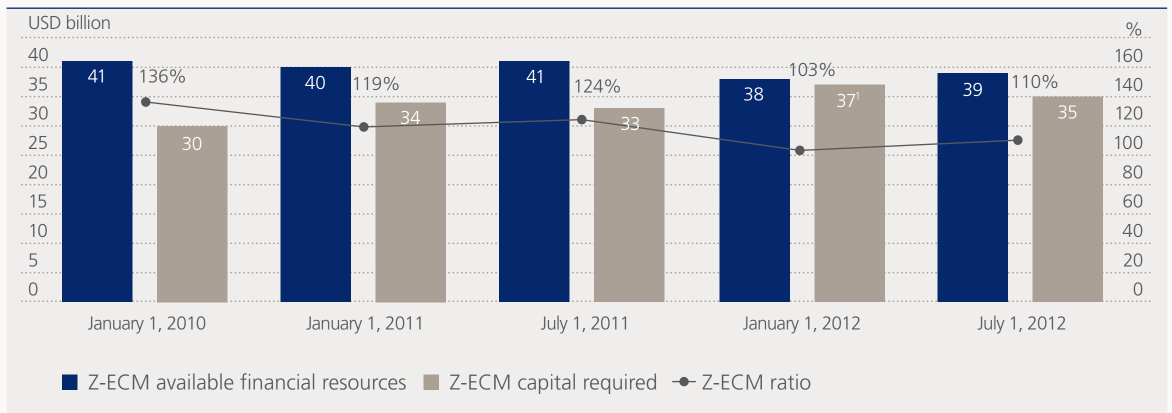
At the Group level, Zurich compares Z-ECM capital required to the Z-ECM available financial resources (Z-ECM AFR) to derive an Economic Solvency Ratio (Z-ECM ratio). Z-ECM AFR reflects financial resources available to cover policyholder liabilities in excess of their expected value. It is derived by adjusting the IFRS shareholders' equity to reflect the full economic capital base available to absorb any unexpected volatility in the Group's business activities.

Risk review *continued*

The chart below shows the development of the Group's Z-ECM available financial resources, Z-ECM capital required and Z-ECM ratio over time.

Analysis of the Group's Z-ECM available financial resources and Z-ECM capital required

in USD billions

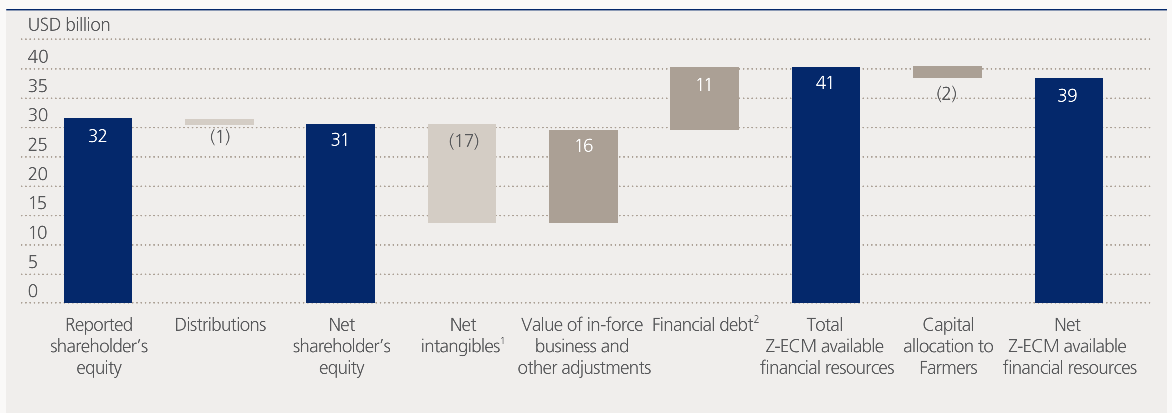


[1] The transaction with Zurich Santander and the acquisition of Zurich Insurance Malaysia Berhad is included in the total Z-ECM capital required.

The chart below shows an analysis of the composition of the Group's Z-ECM available financial resources as of July 1, 2012.

Analysis of the Group's Z-ECM available financial resources

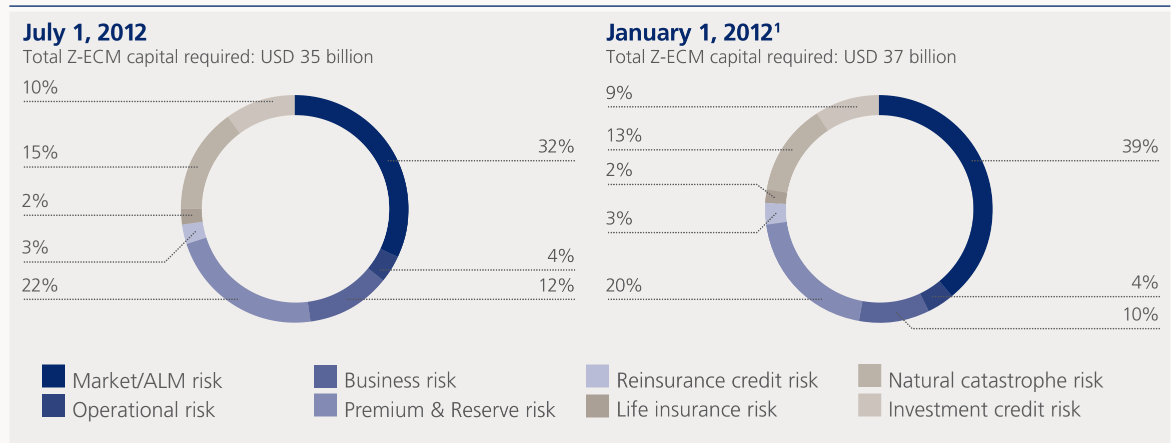
in USD billions as of July 1, 2012



[1] Shareholders' intangible assets adjusted for taxes less deferred front-end fees and deferred tax liabilities
[2] All debt issues (senior and subordinated) excluding those classified as operational debt or maturing within one year

The chart below shows a split of the Z-ECM capital required split by risk type as of July 1 and as of January 1, 2012 respectively. As of July 1, 2012, the largest proportion of Z-ECM capital required arises from Market/ALM risk which comprises 32 percent of the total. Premium & Reserve risk is the second largest, comprising 22 percent.

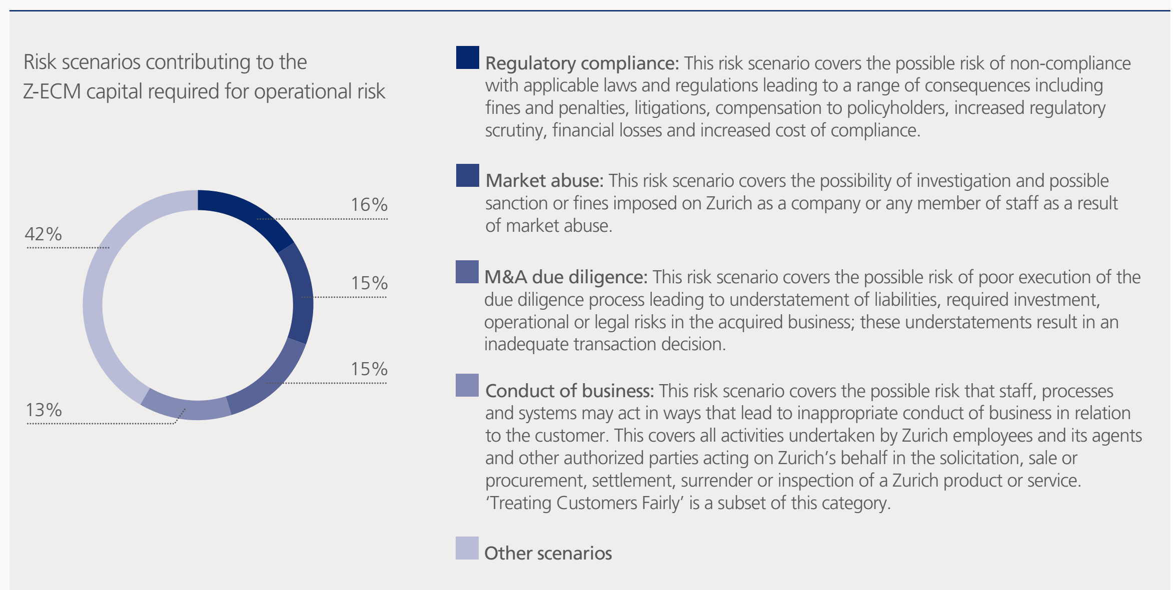
Z-ECM capital required split by risk type
%, as of July 1 and January 1, 2012



[1] The transaction with Zurich Santander and the acquisition of Zurich Insurance Malaysia Berhad is included in the total Z-ECM capital required, but is not considered in the split by risk type.

As part of Z-ECM, the Group uses a scenario-based approach to assess, model and quantify the capital required for operational risk for business units under extreme circumstances and a very small probability of occurrence (internal model calibrated to a confidence level of 99.95 percent over a one-year time horizon). The chart below shows the operational risk scenarios that have the highest impact on Z-ECM capital required. See "Operational risk (audited)" on page 146 for more information.

Z-ECM capital required for operational risk split by risk scenarios
(as of July 1, 2012)



Regulatory compliance: This risk scenario covers the possible risk of non-compliance with applicable laws and regulations leading to a range of consequences including fines and penalties, litigations, compensation to policyholders, increased regulatory scrutiny, financial losses and increased cost of compliance.

Market abuse: This risk scenario covers the possibility of investigation and possible sanction or fines imposed on Zurich as a company or any member of staff as a result of market abuse.

M&A due diligence: This risk scenario covers the possible risk of poor execution of the due diligence process leading to understatement of liabilities, required investment, operational or legal risks in the acquired business; these understatements result in an inadequate transaction decision.

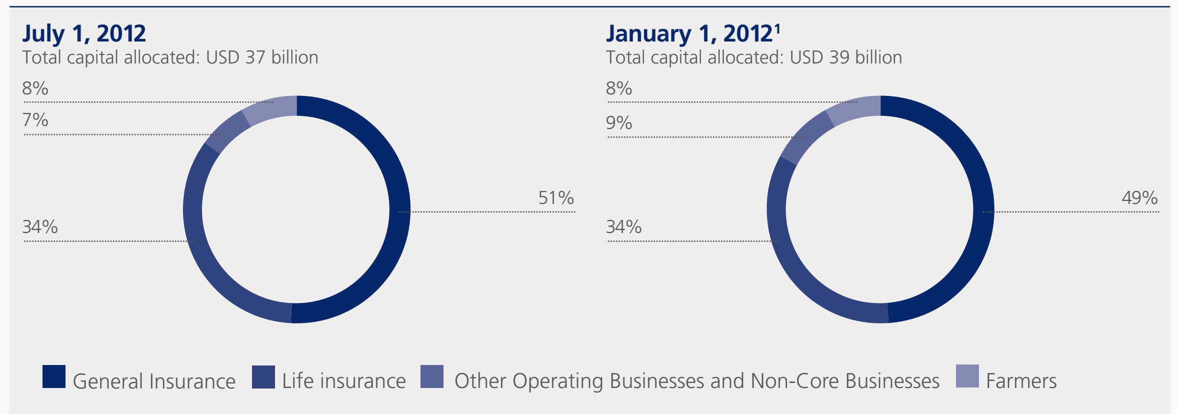
Conduct of business: This risk scenario covers the possible risk that staff, processes and systems may act in ways that lead to inappropriate conduct of business in relation to the customer. This covers all activities undertaken by Zurich employees and its agents and other authorized parties acting on Zurich's behalf in the solicitation, sale or procurement, settlement, surrender or inspection of a Zurich product or service. 'Treating Customers Fairly' is a subset of this category.

Other scenarios

Risk review *continued*

The following chart shows a split of the Z-ECM capital required allocated to the segments as of July 1 and as of January 1, 2012. As of July 1, 2012, the largest proportion of Z-ECM capital required is allocated to General Insurance, which comprises 51 percent of the total, followed by Global Life with 34 percent of the total. Total allocated capital as of July 1, 2012 equals USD 35 billion Z-ECM capital required plus USD 2 billion direct allocation to Farmers.

Total capital allocated, by segment
%, as of July 1 and January 1, 2012



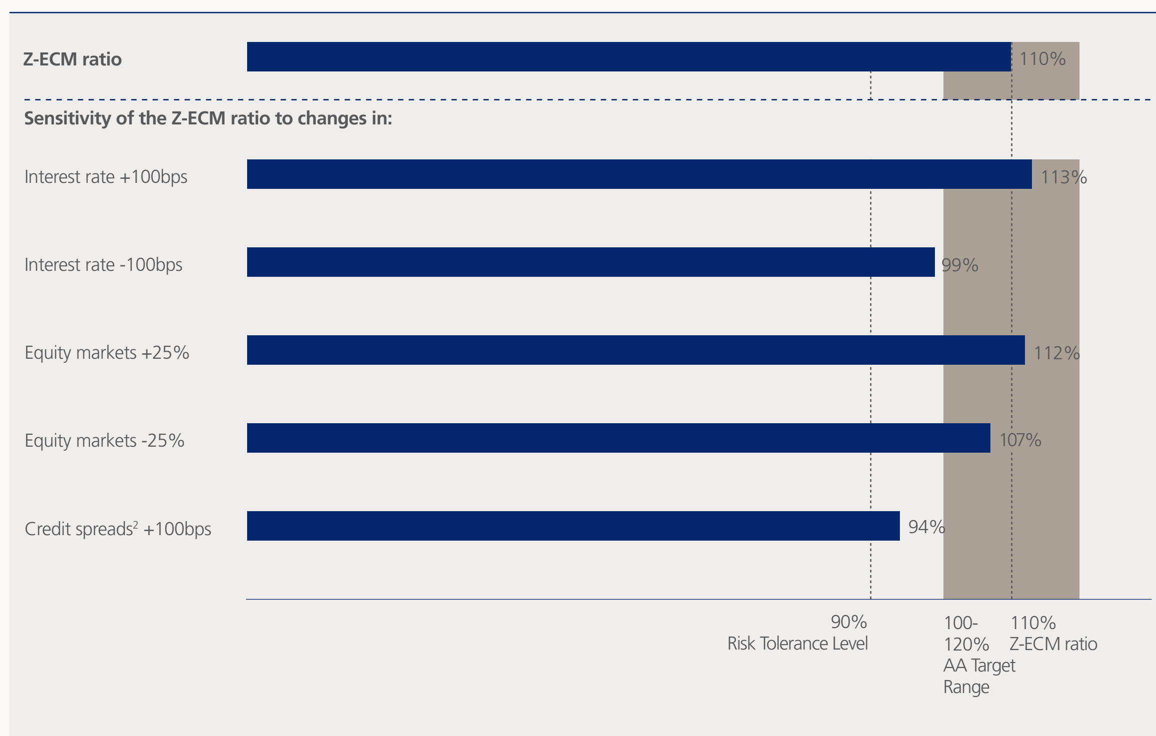
[1] The transaction with Zurich Santander and the acquisition of Zurich Insurance Malaysia Berhad is included in the total capital allocated, but is not considered in the allocation by segment.

The chart below shows the estimated impact on the Group's Z-ECM ratio of:

- A one percentage point increase/decrease in yield curves
- A 25 percent rise/decline in all stock markets, after consideration of hedges in place
- A one percentage point change in credit spreads

The sensitivities are considered separate but instantaneous scenarios.

Sensitivites for the Z-ECM ratio[1]
as of July 1, 2012

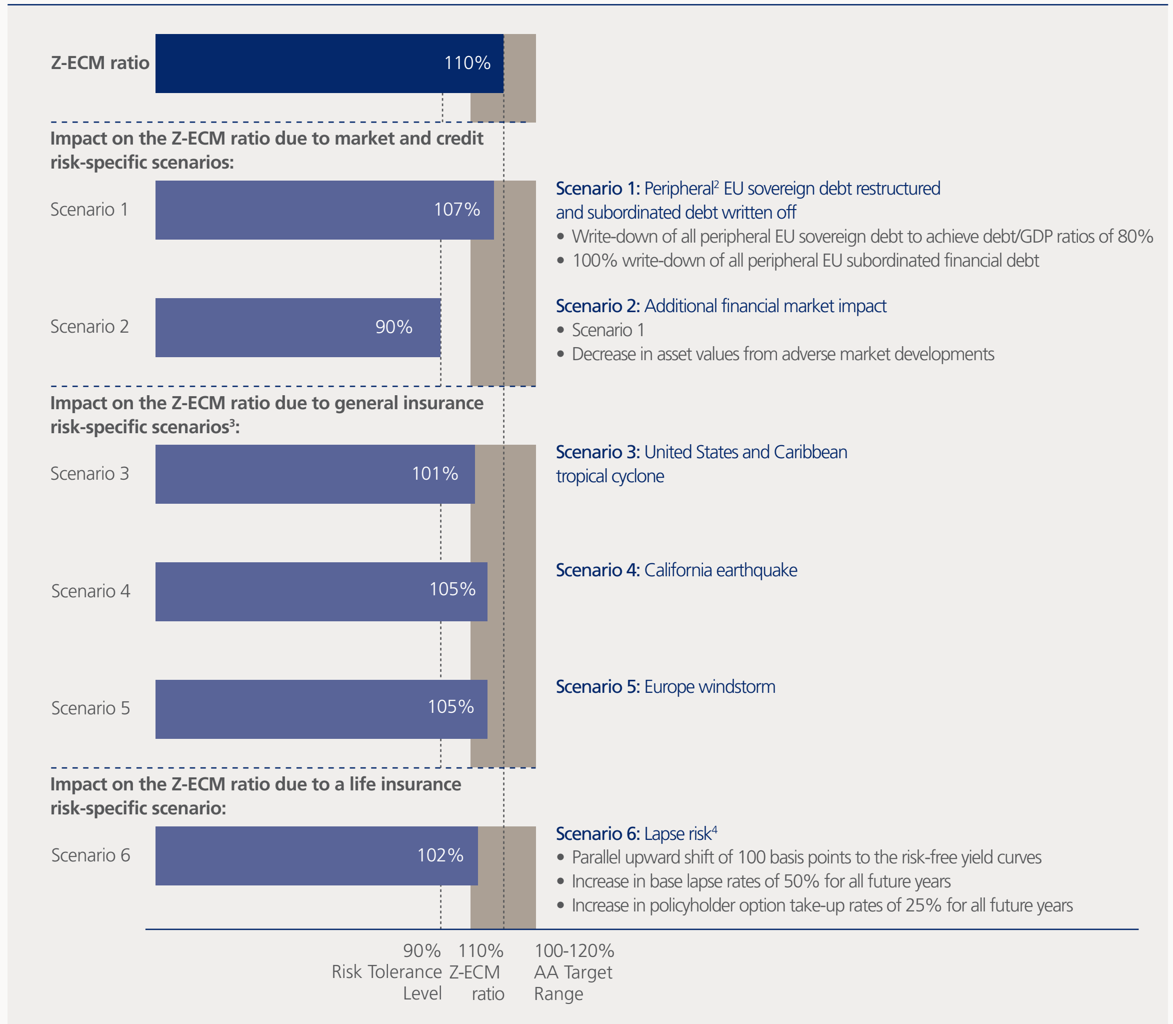


[1] Does not include sensitivities to the underlying assets and liabilities related to the transaction with Zurich Santander (for more information, see note 5 of the Consolidated financial statements). The impact of sensitivities on changes to the Z-ECM available financial resources is only approximated and only taken into account on Market/ALM risk.
[2] The credit spread sensitivity is applied to corporate debt, mortgages and Euro currency government 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 Z-ECM ratio. Scenarios are defined as events that have a very small probability of occurrence and that could, if realized, negatively affect the Group's Z-ECM available financial resources. The chart on the following page 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 market, credit, and insurance scenarios on Z-ECM[1]
as of July 1, 2012



[1] The impact of scenarios on changes to the Z-ECM capital required is not included in the sensitivities for the Z-ECM 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.

Conclusion

Zurich's risk management framework is well embedded in the business. It sets clear responsibilities for taking, managing, monitoring and reporting risks, and is based on a transparent risk tolerance and risk limit system approved by the Board. A very strong financial condition enabled Zurich to safely navigate a broad range of regulatory, economic and operational challenges in 2012.

Enterprise risk management

Aligned with the Group's strategic and operational planning process

In 2012, Zurich conducted more than 150 Total Risk Profiling™ exercises, allowing for a systematic assessment of risk from a strategic perspective. The Zurich Risk Policy was strengthened for various areas, including outsourcing.

The Group focused on information security, business continuity management, anti-fraud and internal control initiatives, to manage operational risk.

Processes for a well-balanced and effectively managed remuneration program were strengthened.

More details on pages 112, 113 and 147

Thought leadership

Sharing the Group's expertise to help businesses, nations and society

The Group participates in a number of international industry organizations focusing on promoting best practices in risk management, and is a main contributor to the World Economic Forum's Global Risk Report.

The report's assessment of the most pressing global risks and the interconnections among them provide valuable information for risk mitigation across the globe.

More details on pages 113–114

Financial condition

Well within the Group's target capital level that is calibrated to a 'AA' financial strength

As of June 30, 2012, the Group had a Zurich Economic Capital Model (Z-ECM) ratio of 110%, and was well above the Swiss Solvency Test requirements with a ratio of 178%. As of December 31, 2012, the Group's Solvency I ratio was 278%.

110%

Z-ECM ratio (as of July 1, 2012)

As of December 31, 2012, Zurich Insurance Company Ltd was rated AA– by Standard and Poor's, with a stable outlook.

AA–/stable

Standard & Poor's financial strength rating of Zurich Insurance Company Ltd (as of December 31, 2012)

More details on pages 149, 151, 153 and 156

Economic risk profile

Insurance-related and business risks: main drivers of the Group's required capital

As of July 1, 2012, insurance-related and business risks contributes to 51% of the Z-ECM capital required. 56% of the total capital allocated to the segments goes to General Insurance, 26% to Global Life and 9% to Farmers.

More details on page 157

End of unaudited sections.

Financial information

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Consolidated financial statements

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Consolidated income statements

in USD millions, for the years ended December 31	Notes	2012	Restated 2011
Revenues			
Gross written premiums		51,285	47,748
Policy fees		2,692	2,452
Gross written premiums and policy fees		53,977	50,200
Less premiums ceded to reinsurers		(6,481)	(6,550)
Net written premiums and policy fees		47,496	43,650
Net change in reserves for unearned premiums	11	(741)	(751)
Net earned premiums and policy fees		46,755	42,899
Farmers management fees and other related revenues	14	2,846	2,767
Net investment result on Group investments	6	8,911	9,367
Net investment income on Group investments		6,711	7,185
Net capital gains/(losses) and impairments on Group investments		2,201	2,182
Net investment result on unit-linked investments	6	10,268	(3,544)
Net gain/(loss) on divestments of businesses		(34)	6
Other income		1,669	1,488
Total revenues		70,414	52,983
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	11	37,271	38,132
Less ceded insurance benefits and losses	11	(3,519)	(5,052)
Insurance benefits and losses, net of reinsurance	11	33,752	33,080
Policyholder dividends and participation in profits, net of reinsurance	11	11,479	(2,685)
Underwriting and policy acquisition costs, net of reinsurance	11	10,014	8,516
Administrative and other operating expense	13	8,661	8,270
Interest expense on debt	21	570	586
Interest credited to policyholders and other interest		475	479
Total benefits, losses and expenses		64,951	48,246
Net income before income taxes		5,462	4,738
Income tax expense	20	(1,496)	(963)
attributable to policyholders	20	(194)	242
attributable to shareholders	20	(1,301)	(1,204)
Net income after taxes		**3,967**	3,775
attributable to non-controlling interests		89	25
attributable to shareholders		3,878	3,750
in USD			
Basic earnings per share	22	26.44	25.70
Diluted earnings per share	22	26.31	25.50
in CHF			
Basic earnings per share	22	24.79	22.69
Diluted earnings per share	22	24.66	22.52

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	Cash flow hedges
2011			
Comprehensive income for the period, as restated	3,750	332	176
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		866	207
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(644)	53
Deferred income tax (before foreign currency translation effects)		113	(71)
Foreign currency translation effects		(4)	(13)
2012			
Comprehensive income for the period	3,878	1,724	6
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,875	32
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(1,724)	(35)
Deferred income tax (before foreign currency translation effects)		(514)	4
Foreign currency translation effects		87	6

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

	Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	(1,461)	(954)	54	(933)	(879)	(1,832)	1,918	(37)	1,881
	(1,418)	(345)	73	(1,328)	(1,255)	(1,601)			
	(43)	(633)	–	–	–	(633)			
	–	43	(19)	352	333	376			
	–	(18)	–	44	44	26			
	(440)	1,290	–	(447)	(447)	843	4,721	136	4,856
	(484)	3,422	–	(471)	(470)	2,952			
	44	(1,715)	–	–	–	(1,715)			
	–	(511)	–	101	101	(409)			
	–	93	–	(78)	(78)	15			

Consolidated financial statements *continued*

Consolidated balance sheets

Assets

in USD millions, as of	Notes	12/31/12	Restated 12/31/11	Restated 01/01/11
Investments				
Total Group investments		208,707	197,677	195,898
Cash and cash equivalents		9,098	8,882	8,182
Equity securities		12,341	12,650	13,729
Debt securities		155,594	144,511	140,254
Real estate held for investment		8,561	8,472	8,274
Mortgage loans		10,519	11,058	11,851
Other loans		12,423	11,944	13,419
Investments in associates and joint ventures		172	161	188
Investments for unit-linked contracts		125,226	114,276	107,947
Total investments	6	333,934	311,953	303,845
Reinsurers' share of reserves for insurance contracts	8	19,753	19,592	18,816
Deposits made under assumed reinsurance contracts		2,588	2,711	2,837
Deferred policy acquisition costs	12	18,346	17,420	16,187
Deferred origination costs	12	770	824	866
Accrued investment income		2,414	2,589	2,749
Receivables and other assets	18	18,423	17,828	17,671
Mortgage loans given as collateral	15	–	223	743
Deferred tax assets	20	1,854	2,076	2,067
Assets held for sale[1]		102	54	–
Property and equipment	16	1,530	1,580	1,689
Goodwill	17	2,107	2,060	2,104
Other intangible assets	17	7,448	8,062	5,954
Total assets		**409,267**	**386,971**	**375,529**

[1] As of December 31, 2012 included land and buildings formerly classified as real estate held for investment and held for own use amounting to USD 89 million and USD 10 million, respectively. As of December 31, 2011 there are assets relating to the sale of a company in Bolivia (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	12/31/12	Restated 12/31/11	Restated 01/01/11
Liabilities				
Reserve for premium refunds		706	611	518
Liabilities for investment contracts	9	58,131	50,958	50,667
Deposits received under ceded reinsurance contracts		1,558	1,560	1,362
Deferred front-end fees		6,073	5,720	5,626
Reserves for insurance contracts	8	265,233	253,207	242,885
Obligations to repurchase securities		1,539	1,794	3,330
Accrued liabilities		3,272	3,147	3,011
Other liabilities	19	18,135	19,137	18,396
Collateralized loans	15	–	223	743
Deferred tax liabilities	20	5,238	4,569	4,482
Liabilities held for sale[1]		–	55	–
Senior debt	21	6,660	6,541	6,453
Subordinated debt	21	5,861	5,476	5,004
Total liabilities		**372,405**	**352,998**	**342,476**
Equity				
Share capital	22	11	10	10
Additional paid-in capital	22	8,172	9,907	11,630
Net unrealized gains/(losses) on available-for-sale investments		4,523	2,800	2,468
Cash flow hedges		238	232	56
Cumulative foreign currency translation adjustment		(3,022)	(2,581)	(1,120)
Revaluation reserve		180	180	126
Retained earnings		24,391	20,936	18,072
Common shareholders' equity		34,494	31,484	31,243
Preferred securities	22	–	–	475
Shareholders' equity		34,494	31,484	31,718
Non-controlling interests		2,368	2,489	1,335
Total equity		**36,862**	**33,973**	**33,053**
Total liabilities and equity		**409,267**	**386,971**	**375,529**

[1] As of December 31, 2011 included liabilities relating to the sale of a company in Bolivia (see note 5).

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

Financial information

Consolidated financial statements *continued*

Consolidated statements of cash flows

in USD millions, for the years ended December 31	**2012**	Restated 2011
Cash flows from operating activities		
Net income attributable to shareholders	3,878	3,750
Adjustments for:		
Net (gain)/loss on divestments of businesses	34	(6)
(Income)/expense from equity method accounted investments	(18)	(12)
Depreciation, amortization and impairments of fixed and intangible assets	1,085	996
Other non-cash items	134	123
Underwriting activities:	10,358	(2,226)
Reserves for insurance contracts, gross	*5,727*	(1,162)
Reinsurers' share of reserves for insurance contracts	*80*	(730)
Liabilities for investment contracts	*5,328*	167
Deferred policy acquisition costs	*(960)*	(867)
Deferred origination costs	*89*	34
Deposits made under assumed reinsurance contracts	*125*	133
Deposits received under ceded reinsurance contracts	*(31)*	199
Investments:	(11,347)	3,050
Net capital (gains)/losses on total investments and impairments	*(10,632)*	3,119
Net change in trading securities and derivatives	*(169)*	(13)
Net change in money market investments	*341*	1,645
Sales and maturities		
Debt securities	*108,358*	109,078
Equity securities	*64,127*	52,149
Other	*39,051*	80,788
Purchases		
Debt securities	*(110,301)*	(108,346)
Equity securities	*(62,935)*	(54,555)
Other	*(39,187)*	(80,815)
Proceeds from sale and repurchase agreements	(332)	(1,572)
Movements in receivables and payables	(2,081)	494
Net changes in other operational assets and liabilities	389	(573)
Deferred income tax, net	463	(135)
Net cash provided by/(used in) operating activities	2,563	3,888

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	2012	Restated 2011
Cash flows from investing activities		
Sales of property and equipment	95	49
Purchases of property and equipment	(226)	(199)
Disposal of equity method accounted investments, net	2	42
Acquisitions of companies, net of cash acquired	(97)	(977)
Divestments of companies, net of cash balances	(14)	20
Dividends from equity method accounted investments	6	3
Net cash provided by/(used in) investing activities	(234)	(1,062)
Cash flows from financing activities		
Dividends paid	(2,704)	(2,835)
Issuance of share capital	96	83
Net movement in treasury shares and preferred securities	30	7
Redemption of preferred securities and transactions with non-controlling interests	–	(476)
Issuance of debt	1,575	2,645
Repayments of debt outstanding	(1,315)	(1,863)
Net cash provided by/(used in) financing activities	(2,318)	(2,439)
Foreign currency translation effects on cash and cash equivalents	187	48
Change in cash and cash equivalents	197	436
Cash and cash equivalents as of January 1	10,162	9,726
Cash and cash equivalents as of December 31	**10,359**	**10,162**
of which:		
– cash and cash equivalents – Group investments	9,098	8,882
– cash and cash equivalents – unit linked	1,261	1,280
Other supplementary cash flow disclosures		
Other interest income received	6,852	7,270
Dividend income received	1,843	1,778
Other interest expense paid	(1,147)	(1,104)
Income taxes paid	(1,231)	(1,098)

Cash and cash equivalents

in USD millions, for years ended December 31	2012	Restated 2011
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	6,953	5,410
Cash equivalents	3,406	4,751
Total	**10,359**	**10,162**

As of December 31, 2012 and 2011, cash and cash equivalents held to meet local regulatory requirements were USD 1,345 million and USD 1,685 million, respectively.

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, 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 shares[4]	–	(15)	–
Share-based payment transactions	–	22	–
Treasury share transactions[5]	–	(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
Balance as of December 31, 2011, as previously reported	10	9,907	2,800
Total adjustments due to restatement	–	–	–
Balance as of December 31, 2011, as restated	10	9,907	2,800
Issuance of share capital[1]	–	221	–
Dividends to shareholders[3]	–	(1,923)	–
Share-based payment transactions	–	(34)	–
Treasury share transactions[5]	–	2	–
Change in ownership interests with no loss of control	–	–	–
Total comprehensive income for the period, net of tax	–	–	1,724
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*1,724*
Cash flow hedges	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of December 31, 2012	**11**	**8,172**	**4,523**

[1] The number of common shares issued as of December 31, 2012 was 148,300,123 (December 31, 2011: 147,385,822; December 31, 2010: 146,586,896).
[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] As approved by the Annual General Meeting on March 29, 2012, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 840 million between the dividend at transaction day exchange rates amounting to USD 2,763 million and the dividend at historical exchange rates amounting to USD 1,923 million is reflected in the cumulative foreign currency translation adjustment.
[4] 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.
[5] The number of treasury shares deducted from equity as of December 31, 2012 amounted to 1,348,395 (December 31, 2011: 1,373,392; December 31, 2010: 1,399,080).

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
56	(1,120)	126	18,259	31,429	475	31,905	1,336	33,241
–	–	–	(187)	(187)	–	(187)	(1)	(188)
56	(1,120)	126	18,072	31,243	475	31,718	1,335	33,053
–	–	–	–	211	–	211	–	211
–	–	–	–	(1,912)	(4)	(1,916)	(22)	(1,938)
–	–	–	–	(15)	(462)	(476)	–	(476)
–	–	–	–	22	–	22	–	22
–	–	–	50	21	(14)	7	–	7
176	(1,461)	54	2,814	1,914	4	1,918	(37)	1,881
–	–	–	*3,746*	*3,746*	*4*	*3,750*		
–	–	–	–	*332*	–	*332*		
176	–	–	–	*176*	–	*176*		
–	*(1,461)*	–	–	*(1,461)*	–	*(1,461)*		
–	–	*54*	–	*54*	–	*54*		
–	–	–	*(933)*	*(933)*	–	*(933)*		
–	–	–	–	–	–	–	1,213	1,213
232	(2,581)	180	20,936	31,484	–	31,484	2,489	33,973
232	(2,632)	180	21,139	31,636	–	31,636	2,380	34,017
–	51	–	(203)	(153)	–	(153)	109	(44)
232	(2,581)	180	20,936	31,484	–	31,484	2,489	33,973
–	–	–	–	221	–	221	–	221
–	–	–	–	(1,923)	–	(1,923)	(43)	(1,966)
–	–	–	–	(34)	–	(34)	–	(34)
–	–	–	28	30	–	30	–	30
–	–	–	(5)	(5)	–	(5)	–	(5)
6	(440)	–	3,431	4,721	–	4,721	136	4,856
–	–	–	*3,878*	*3,878*	–	*3,878*		
–	–	–	–	*1,724*	–	*1,724*		
6	–	–	–	*6*	–	*6*		
–	*(440)*	–	–	*(440)*	–	*(440)*		
–	–	–	*(447)*	*(447)*	–	*(447)*		
–	–	–	–	–	–	–	(214)	(214)
238	**(3,022)**	**180**	**24,391**	**34,494**	**–**	**34,494**	**2,368**	**36,862**

Consolidated financial statements *continued*

Zurich Insurance Group Ltd and its subsidiaries (collectively the "Group") is a provider of insurance-based products. 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 Insurance Group Ltd (formerly known as Zurich Financial Services Ltd), a Swiss corporation, is the holding company of the Group and is listed on the SIX Swiss Exchange. Zurich Insurance Group 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. On April 4, 2012, Zurich Financial Services Ltd was renamed to Zurich Insurance Group Ltd in line with the streamlining of its business to concentrate on insurance. The Swiss regulator FINMA and the Joint Committee of the European Supervisory Authority have also re-designated the Group from an insurance conglomerate to an insurance group. Throughout this document, Zurich Insurance Group Ltd is used consistently even if reference is made to facts that occurred prior to the renaming of the Company.

On February 13, 2013 the Board of Directors of Zurich Insurance Group 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 April 4, 2013.

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 applied 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 the 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 and losses as well as gains and losses on transfer of net assets, which are eliminated against equity. In 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 111 to 161, 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 and assumptions made.

The Group's consolidated balance sheets are 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 20a and 20b in the Risk review), liabilities for investment contracts (tables 21a and 21b 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 21.4).

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. All ratios and variances are calculated using the underlying amounts rather than rounded amounts.

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 79 million and USD 112 million for the years ended December 31, 2012 and 2011, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 130 million for both of the years ended December 31, 2012 and 2011.

Principal exchange rates

Table 1.1

USD per foreign currency unit	Consolidated balance sheets		Consolidated income statements and cash flows	
	12/31/2012	12/31/2011	**12/31/2012**	12/31/2011
Euro	1.3188	1.2969	1.2857	1.3927
Swiss franc	1.0928	1.0666	1.0668	1.1326
British pound	1.6272	1.5533	1.5847	1.6039

Restatements and reclassifications

In 2011, the Group completed the acquisition of the life insurance, pension and general insurance operations of Banco Santander S.A. (Santander) in Brazil, Argentina, Chile, Mexico and Uruguay (see note 5). In the Group's Consolidated financial statements 2011, total assets of USD 15.6 billion and total liabilities of USD 13.2 billion were initially included in receivables and other assets and other liabilities, respectively. The Consolidated financial statements as of December 31, 2012 include restated amounts as of December 31, 2011 to reallocate the preliminary numbers to individual balance sheet line items and for the subsequent reassessment of the initial purchase accounting. Table 1.3 shows the impact of the reclassifications as well as the updates to the initial purchase accounting on the consolidated balance sheet. Consolidated balance sheets, consolidated statements of changes in equity, consolidated statements of cash flows and notes 6, 8, 9, 12, 16, 17, 18, 19, 20, 26 and 29 have been restated accordingly.

In the course of the review related to the strengthening of reserves for losses and loss adjustment expenses in the General Insurance business in Germany, the Group determined that improper case reserving practices had resulted in errors which led to insufficient reserves for losses estimated in previous years. Additionally, the Group determined that deferred policy acquisition costs were overstated due to a system error in Germany. In aggregate, the errors identified were deemed material and have resulted in a restatement reducing total equity by USD 198 million and USD 188 million as of December 31, 2011 and January 1, 2011, respectively. For the year ended December 31, 2011 the impact on net income after taxes was a loss of USD 17 million and on business operating profit a loss of USD 18 million. The impact on various line items as of December 31, 2011 in the consolidated income statement and the consolidated balance sheet are set out in the restatement tables 1.2 and 1.3, respectively. Consolidated income statements, consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated statements of cash flows and notes 8, 11, 12, 20, 22 and 29 have been restated accordingly.

The Group erroneously classified certain life insurance products. The classification was corrected in 2012 as the impact on the Group's consolidated income statement was not material. The reclassifications in the consolidated balance sheet between liabilities for investment contracts and reserves for unit-linked contracts, and between deferred policy acquisition costs and deferred origination costs are set out in notes 8, 9 and 12.

Consolidated financial statements *continued*

The Group previously classified certain liabilities relating to non-life insurance annuities (mainly accident insurance) as policyholder contract deposits and other funds. The classification was prospectively changed in 2012 as the reclassification has no impact on the Group's consolidated balance sheet or income statement. The reclassifications from policyholder contract deposits and other funds to reserves for losses and loss adjustment expenses as well as future life policyholders' benefits are set out in note 8.

Restatement of the consolidated income statement

Table 1.2

in USD millions, for the year ended December 31, 2011	As reported	Germany	As restated
Revenues			
Gross written premiums	47,748	–	47,748
Policy fees	2,452	–	2,452
Gross written premiums and policy fees	50,200	–	50,200
Less premiums ceded to reinsurers	(6,550)	–	(6,550)
Net written premiums and policy fees	43,650	–	43,650
Net change in reserves for unearned premiums	(751)	–	(751)
Net earned premiums and policy fees	42,899	–	42,899
Farmers management fees and other related revenues	2,767	–	2,767
Net investment result on Group investments	9,367	–	9,367
Net investment income on Group investments	7,185	–	7,185
Net capital gains/(losses) and impairments on Group investments	2,182	–	2,182
Net investment result on unit-linked investments	(3,544)	–	(3,544)
Net gain/(loss) on divestments of businesses	6	–	6
Other income	1,488	–	1,488
Total revenues	52,983	–	52,983
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	38,106	25	38,132
Less ceded insurance benefits and losses	(5,052)	–	(5,052)
Insurance benefits and losses, net of reinsurance	33,054	25	33,080
Policyholder dividends and participation in profits, net of reinsurance	(2,685)	–	(2,685)
Underwriting and policy acquisition costs, net of reinsurance	8,523	(7)	8,516
Administrative and other operating expense	8,270	–	8,270
Interest expense on debt	586	–	586
Interest credited to policyholders and other interest	479	–	479
Total benefits, losses and expenses	48,227	19	48,246
Net income before income taxes	4,757	(19)	4,738
Income tax expense	(965)	2	(963)
attributable to policyholders	242	–	242
attributable to shareholders	(1,206)	2	(1,204)
Net income after taxes	**3,792**	**(17)**	**3,775**
attributable to non-controlling interests	25	–	25
attributable to shareholders	3,766	(16)	3,750
in USD			
Basic earnings per share	25.81	(0.11)	25.70
Diluted earnings per share	25.61	(0.11)	25.50
in CHF			
Basic earnings per share	22.79	(0.10)	22.69
Diluted earnings per share	22.62	(0.10)	22.52

Restatement and reclassifications of the consolidated balance sheet

Table 1.3

in USD millions, as of December 31, 2011	As reported	Santander	Germany	As revised
Investments				
Total Group investments	194,385	3,293	–	197,677
Cash and cash equivalents	8,768	114	–	8,882
Equity securities	11,226	1,424	–	12,650
Debt securities	142,861	1,649	–	144,511
Real estate held for investment	8,468	4	–	8,472
Mortgage loans	11,058	–	–	11,058
Other loans	11,842	101	–	11,944
Investments in associates and joint ventures	161	–	–	161
Investments for unit-linked contracts	104,603	9,673	–	114,276
Total investments	298,988	12,965	–	311,953
Reinsurers' share of reserves for insurance contracts	19,361	231	–	19,592
Deposits made under assumed reinsurance contracts	2,711	–	–	2,711
Deferred policy acquisition costs	16,864	641	(85)	17,420
Deferred origination costs	824	–	–	824
Accrued investment income	2,589	–	–	2,589
Receivables and other assets	32,766	(14,938)	–	17,828
Mortgage loans given as collateral	223	–	–	223
Deferred tax assets	2,076	–	–	2,076
Assets held for sale	54	–	–	54
Property and equipment	1,579	1	–	1,580
Goodwill	2,060	–	–	2,060
Other intangible assets	5,774	2,288	–	8,062
Total assets	**385,869**	**1,187**	**(85)**	**386,971**
Liabilities				
Reserve for premium refunds	554	58	–	611
Liabilities for investment contracts	50,661	297	–	50,958
Deposits received under ceded reinsurance contracts	1,543	17	–	1,560
Deferred front-end fees	5,720	–	–	5,720
Reserves for insurance contracts	240,811	12,211	185	253,207
Obligations to repurchase securities	1,794	–	–	1,794
Accrued liabilities	3,110	37	–	3,147
Other liabilities	31,317	(12,179)	–	19,137
Collateralized loans	223	–	–	223
Deferred tax liabilities	4,049	592	(72)	4,569
Liabilities held for sale	55	–	–	55
Senior debt	6,541	–	–	6,541
Subordinated debt	5,476	–	–	5,476
Total liabilities	**351,852**	**1,033**	**113**	**352,998**
Equity				
Share capital	10	–	–	10
Additional paid-in capital	9,907	–	–	9,907
Net unrealized gains/(losses) on available-for-sale investments	2,800	–	–	2,800
Cash flow hedges	232	–	–	232
Cumulative translation adjustment	(2,632)	43	7	(2,581)
Revaluation reserve	180	–	–	180
Retained earnings	21,139	–	(203)	20,936
Common shareholders' equity	31,636	43	(196)	31,484
Shareholders' equity	31,636	43	(196)	31,484
Non-controlling interests	2,380	111	(2)	2,489
Total equity	**34,017**	**154**	**(198)**	**33,973**
Total liabilities and equity	**385,869**	**1,187**	**(85)**	**386,971**

Consolidated financial statements *continued*

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early adopted as of January 1, 2012 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, 2012. The impact of adoption on the Group's Consolidated financial statements is disclosed in table 2.1.

Standard/Interpretation

Table 2.1

		Effective date
Amended Standards		
IFRS 7	Disclosures – Transfer of Financial Assets[1]	1 July 2011
IAS 12	Deferred Tax – Recovery of Underlying Assets[1]	1 January 2012

[1] Adoption has no significant impact on the Consolidated financial statements

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 expected impact of these standards, amendments, and interpretations on the Group's Consolidated financial statements are disclosed in table 2.2. In addition to the standards and amendments listed in table 2.2 the Group will also have to incorporate amendments resulting from the IASB annual improvements project, which relate primarily to disclosure enhancements.

Standard/Interpretation

Table 2.2

		Effective date	Planned adoption date Fiscal Year
New Standards			
IFRS 10	Consolidated Financial Statements[2]	1 January 2013	2013
IFRS 11	Joint Arrangements[1]	1 January 2013	2013
IFRS 12	Disclosure of Interests in Other Entities[1]	1 January 2013	2013
IFRS 13	Fair Value Measurement[3]	1 January 2013	2013
IFRS 9	Financial Instruments[5]	1 January 2015	2015
Amended Standards			
IAS 1	Presentations of Components of Other Comprehensive Income (OCI)[1]	1 July 2012	2013
IAS 19	Employee Benefits[4]	1 January 2013	2013
IAS 27	Separate Financial Statements[1]	1 January 2013	2013
IAS 28	Investments in Associates and Joint Ventures[1]	1 January 2013	2013
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]	1 January 2013	2013
IAS 32	Offsetting Financial Assets and Financial Liabilities[1]	1 January 2014	2014

[1] Not expected to have a significant impact on the Consolidated financial statements.
[2] Expected to result in an immaterial net deconsolidation impact resulting from the additional consolidation of certain structured entities that are currently accounted for as associates and the deconsolidation of silo-structures and funds.
[3] Expected to result in a change in the fair value hierarchy disclosures.
[4] Projected expenses applying a high quality corporate bond rate rather than an expected return on assets rate would have been approximately USD 50 million lower. Additionally, impact from past service cost is immaterial.
[5] The impact on the Consolidated financial statements will be assessed in conjunction with the revised standard IFRS 4 "Insurance Contracts". Changes to the IFRS timetable may impact this approach

3. Summary of significant accounting policies

The principal accounting policies applied in these Consolidated financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

a) Consolidation principles

The Group's Consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Group Ltd and its subsidiaries. A subsidiary is an entity in which Zurich Insurance Group 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 is 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, these investments 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 effect on the Group's Consolidated financial statements is not material.

b) Foreign currency translation and transactions

Foreign currency translation

Due to the Group's economic exposure to the U.S. dollar (USD), the presentation currency of the Group's consolidated financial statements is USD. Many Group companies use a different functional currency, being the currency of the respective primary economic environment in which these companies operate. Assets and liabilities 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.

Consolidated financial statements *continued*

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

Classification

Contracts issued under which the Group accepts significant insurance risk and obligations arising from investment contracts with DPF are accounted for as insurance contracts.

The Group also issues products containing embedded options 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 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 short-duration general insurance products are recorded when written and normally are accreted to earnings in relation to the insurance coverage provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired coverage period.

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. 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 estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. 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 and include the value of accumulated declared bonuses or dividends that have vested to policyholders.

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.

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 premiums 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 that these products are managed. Financial assets relating to these liabilities are designated as "fair value through profit or loss".

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.

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 interest rate in effect at the inception of the contracts or the latest revised interest rate for the remaining benefit period, depending on whether crediting is based on the policyholder's or on the reporting entity's investment performance. Resultant deviations are reflected in income.

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

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

Liability adequacy tests

Liability adequacy testing is performed annually for groupings of contracts determined in accordance with the 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.

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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, under assumed or ceded reinsurance contracts, respectively, when funds are retained by the reinsured under the terms of the contract.

Reinsurance is recorded gross in the consolidated balance sheet. 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 assets are assessed for impairment on a regular basis for any events that may trigger impairment. 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)
Investment contracts are those contracts that transfer no significant insurance risk. The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

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 and changes in fair value are recorded in income. 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.

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.

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.

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.

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.

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 irrevocably designated at fair value through profit or loss at inception.

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 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,

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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. 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 loss events occurred which negatively affect the estimate future cash flows of a financial asset or group of financial assets.

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. 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 and 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 are 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. 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.

f) Derivative financial instruments and hedge accounting

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. Derivative financial instruments include embedded derivative features which are assessed at inception of the contract and, depending on their characteristics, are measured and presented as separate derivative financial instruments.

Derivative financial instruments that qualify for hedge accounting

Derivative financial instruments are used by the Group to economically hedge risks. In limited circumstances derivative financial instruments 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.

All hedge relationships are formally documented, including the risk management objectives and strategy for undertaking hedge transactions. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed in order to determine whether the hedging instruments 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 derivative financial instruments 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 hedged item attributable to the risk being hedged.

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.

Net investment hedges

Measurement of hedge effectiveness is based on changes in forward rates. Gains and losses on the designated hedging derivative relating to the effective portion of the hedge are directly recognized in OCI whereas the ineffective portion is immediately recognized in income. The accumulated gains and losses on the hedging instrument in OCI are reclassified to income on disposal of the foreign operation.

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.

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) 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

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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 "Receivables and other assets". 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 would be derecognized. Any shortfall is recorded as a loss in income.

i) Property and equipment

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.

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. Assets are grouped on a cash generating unit (CGU) level if the recoverable amount cannot be separately determined.

j) 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 computer software licenses and capitalized software development costs.

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.

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.

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, CGUS 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. The AIF is reviewed for impairment at least annually.

Distribution agreements

Distribution agreements may have useful lives extending up to 30 years which are estimated based on the period of time over which they are expected to provide economic benefits, but no longer than the contractual term, 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.

Software

Costs associated with research and maintenance of internally developed computer software are expensed as incurred. Costs incurred during the development phase are capitalized. Software under development is tested for impairment annually.

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 internal software development costs generally do not exceed five years. In some 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.

k) 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.

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l) Treasury shares
Zurich Insurance Group Ltd shares 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 consolidated income statements on the purchase, sale, issue or cancellation of treasury shares.

m) Other revenue recognition
Farmers management fees
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. Fees for these management services are primarily determined as a percentage of gross premiums earned by the Farmers Exchanges.

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.

n) 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.

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.

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

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.

o) 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 is determined by reference to the fair value of the shares and/or options previously granted and is recognized as an expense in income over the vesting period, with a corresponding amount recorded in additional paid-in capital.

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.

Retirement benefits
Contributions to defined contribution plans are recorded as an expense in the period in which the economic benefit from the employees' service was received.

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. To the extent that past service costs are vested, they are recognized immediately. Unrecognized past service costs represent past service costs 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.

p) Leases

Payments made under operating leases (net of any incentives received from the lessor) are normally charged to income on a straight-line basis over the period of the lease.

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.

q) 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.

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4. Critical accounting judgments and estimates

The application of certain accounting policies necessitates critical accounting estimates that involve discretionary judgments and the use of assumptions which are susceptible to change due to inherent uncertainties. Because of the uncertainties involved, actual results could differ significantly from the assumptions and estimates made by management. Such critical accounting estimates are of significance to insurance reserves and deferred acquisition costs, the determination of fair value for financial assets and liabilities, the determination of fair values of assets and liabilities attributable to business combinations, impairment charges, deferred taxes and employee benefits.

a) Reserves for insurance contracts and deferred acquisition costs

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 incurred but not reported (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, 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 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.

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 can vary by country, year of issuance and product and 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.

Deferred policy acquisition costs are deferred only to the extent that they are recoverable from future policy income. Recoverability is tested at contract inception and subsequently on a regular basis with reference to current expectations of future profits or margins.

See note 8 for further information on reserves for insurance contracts and note 12 for deferred policy acquisition costs. Also refer to the insurance risk section of the Risk Review.

b) Fair value measurement

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.

In determining the fair values of available-for-sale financial assets and financial assets at fair value through profit or loss, 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 that have proper processes and controls 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 developed by making maximum use of current observable market inputs derived from orderly transactions and by employing widely accepted valuation techniques and models. When third party pricing providers are unable to obtain adequate observable information for a particular financial instrument, the fair value is determined either requesting selective non-binding broker quotes or using internal valuation models.

Consolidated financial statements *continued*

Investment accounting, operations and process 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.

Fair values of debt instruments issued by government entities and corporate entities are obtained from third party pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for identical assets, alternative pricing methods such as matrix pricing or alternatively, based on an income approach employing discounted cash flow models.

Fair values of equity securities are generally based on quoted prices in an active market (i.e., exchange or dealer market) for identical assets. 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).

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 obtained from net asset value information and audited financial statements provided by 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.

Discounted cash flow models are used for mortgage and other loans and long term receivables. The discount yields in these models use either current interest rates charged by the Group on these instruments or calculated rates that reflect 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.

Fair value of real estate held for investment is based on valuations performed annually by internal valuation specialists and generally on a rotation basis at least once every three years by an independent qualified appraiser. The valuation methods applied are income capitalization, discounted cash flow analysis, and market comparables taking into account the actual letting status and observable market data.

See notes 6, 7 and 26 for further information on the fair value of financial assets and liabilities.

c) 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 bank distribution 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.

d) Impairment of assets
Assets are subject to regular impairment reviews under the relevant IFRS standard.

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

For held-to-maturity investments and loans and receivables, the recoverable amount is determined by reference to the present value of the estimated future cash flows. The carrying amount of mortgage loans and receivables is reduced through an impairment allowance determined using an analytical method based on knowledge of each loan group or receivable. The method is normally based on historical statistics, adjusted for known or anticipated trends in the group of financial assets or individual accounts. As judgment is inherent in such impairment reviews, actual outcomes could vary significantly from the forecast future cash flows.

Goodwill and Attorney-in-fact relationships (AiF)
Goodwill is allocated to the Cash Generating Units (CGU) which represent the lowest level at which goodwill is monitored for internal management purposes. 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.

CGUs are defined separately for the three main business segments, General Insurance, Global Life and Farmers. General Insurance and Farmers are considered as single worldwide CGUs. For Global Life CGUs are defined on a lower level in line with management's view of the business.

The discount rates used in the recoverable amount calculations for developed markets are based on the capital asset pricing model and consider government bond rates which are further adjusted for equity risk premium, appropriate beta and leverage ratio. In emerging markets, discount rates are based on the U.S. dollar discount rate taking into account inflation differential expectations and country risks. All input factors to the discount rates are based on observable market data.

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 which are approved by management and typically cover a three-year period.

Table 4.1 sets out the applied discount rates and the perpetual nominal growth rates (PGR) beyond the projection period which are dependent on country specific growth rate and inflation expectations for the major CGUs.

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Table 4.1

Discount and perpetual growth rates for Goodwill by major CGUs

	Segment	in USD millions	Discount rates in % 2012	Discount rates in % 2011	Perpetual nominal growth rate in % 2012	Perpetual nominal growth rate in % 2011
Farmers	Farmers	819	8.5	8.3	–	–
General Insurance	GI	852	8.0	7.9	2.1	–
Global Life Germany	Life	275	6.7	7.1	2.0	2.0
Zurich Assurance Ltd and Openwork Holdings Ltd	Life	109	5.9	5.8	–	–

Sensitivity tests have been performed on goodwill and typically comprised of an analysis for a decrease in cash flows of up to 30 percent, a decrease in the perpetual growth rate of up to 1.0 percentage point or an increase in the discount rate of up to 3.5 percentage points in order to reflect current adverse market conditions. No impairments were identified on this basis.

Distribution agreements

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.

The discount rates used in the recoverable amount calculations for developed markets are based on the capital asset pricing model and consider government bond rates which are further adjusted for equity risk premium, appropriate beta and leverage ratio. In emerging markets, discount rates are based on the U.S. dollar discount rate taking into account inflation differential expectations and country risks. All input factors to the discount rates are based on observable market data.

Table 4.2 sets out the applied discount rates and the PGR beyond the projection period which are dependent on country specific growth rate and inflation expectations for the major distribution agreements.

Table 4.2

Discount and perpetual growth rates by major distribution agreements

	in USD millions	Range of discount rates in % 2012	Range of discount rates in % 2011	Perpetual nominal growth rate in % 2012	Perpetual nominal growth rate in % 2011
Banco Sabadell S.A. entities in Spain	1,763	9.0	4.8–8.3	2.5	2.5
Banco Santander S.A. entities in Latin America	1,852	7.8–20.1	n/a	n/a	n/a

For impairment testing purposes these distribution agreements are assessed as single assets by counterparty.

Sensitivity tests have been performed on distribution agreements and typically comprised of an analysis for a decrease in cash flows, a decrease in the perpetual growth rate or an increase in the discount rate, applying reasonably possible changes. No impairments were identified on this basis.

In light of the current economic conditions in Spain the Group, in particular, monitors whether the actual performance of the distribution agreements with Banco Sabadell S.A. are in line with the business plans.

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

e) 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.

f) 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. Discount rates for significant plans are 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.

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5. Acquisitions and divestments

Transactions in 2012

Acquisitions

On May 25, 2012, the Group increased its shareholding in Zurich Insurance Company South Africa Limited, a partially owned subsidiary, to 84.05 percent by purchasing a 25.1 percent shareholding from Royal Bafokeng Finance (Pty) Limited (RBF) for a purchase price of approximately USD 75 million. With this purchase of 25.1 percent the Group's controlled interest for the Consolidated financial statements is now in line with its legal ownership. The put option right granted to RBF in 2010 to sell back its entire shareholding to the Group also ceased to exist.

Divestments and loss of control

The Group lost control over one of its subsidiaries and consequently derecognized the assets and liabilities at their carrying value and recognized its retained investment in this entity as an equity security classified as available-for-sale as of September 30, 2012. A USD 38 million pre-tax loss has been recorded within net gain/(loss) on divestments of businesses.

Transactions in 2011

Acquisitions

On October 5, 2011, the Group completed the acquisition of a 51.0 percent participation in a holding company, which owns 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 resulting 51.0 percent ultimate ownership for the Group. The Group obtained control over the acquired entities through its majority voting right in the holding company's board of directors and as shareholder, which together allow the Group to direct the relevant activities of the insurance operations (Zurich Santander). 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 an estimated purchase price adjustment of USD 23 million for the purchase accounting as reflected in the Consolidated financial statements as of acquisition dates. Subsequently such estimated purchase price adjustment has decreased immaterially. The Group is still in the process of finalizing the purchase price adjustment. The Group and Santander have also entered into long term loan agreements with one of the acquired companies, whereby total funds of USD 511 million were provided in line with the shareholdings of 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 criterion, were 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 criterion. The earn-out payments which are denominated in local currency, are scheduled to increase over the 25 year period up to a cumulative maximum total amount of USD 1.6 billion, based on acquisition foreign exchange rates. On a present value basis the cumulative maximum earn-out payments amount to USD 334 million. The fair value of the earn-out liability as of acquisition date was estimated to amount to USD 99 million and was derived by a probability weighting of different profitability scenarios and by applying a local currency based discount rate.

Since acquisition the Group had in particular reassessed the value of technical reserves in Brazil, Chile and Mexico, deferred acquisition costs in Mexico and Chile and present value of future profits in Brazil, Mexico and Chile based on better available data as of the acquisition date. Total assets, including identifiable intangible assets for Global Life and General Insurance as of the acquisition dates, have been revised to USD 16.8 billion and total liabilities have been revised to USD 13.9 billion. These amounts have been allocated to individual balance sheet line items and exclude amounts reported in Other Operating Businesses. The initially recorded assets and liabilities in the Group's Consolidated financial statements 2011 have been restated as set out in note 1. The identifiable intangible assets, gross of deferred tax, comprise the value of the distribution agreements in Brazil, Argentina, Mexico and Chile amounting to USD 2.0 billion and the present value of future profits (PVFP) of acquired insurance contracts for the life insurance businesses in Brazil, Mexico and Chile of USD 309 million. Based on these numbers, the residual goodwill amounts to nil. The value of the distribution agreements and PVFP were determined on the basis of country specific in-force data, transaction projections and assumptions. The non-controlling interests are valued proportionately to the purchase price paid by the Group.

Acquisition related costs of USD 24 million were included in other administrative expenses for the year ended December 31, 2011, and were excluded from business operating profit.

Table 5.1 shows the main balance sheet line items as of the acquisition dates, representing the fair value of the Zurich Santander companies acquired.

Business combinations

Table 5.1

in USD millions, as of acquisition dates	Global Life	General Insurance	Other Operating Businesses	Total
Total Group Investments	2,959	380	3	3,342
Cash and cash equivalents	127	6	3	136
Equity securities	1,290	139	–	1,429
Debt securities	1,461	209	–	1,670
Real estate held for investment	4	–	–	4
Other loans	77	26	–	103
Investments for unit-linked contracts	9,616	–	–	9,616
Total investments	**12,575**	**380**	**3**	**12,958**
Reinsurers’ share of reserves for insurance contracts	11	227	–	238
Deferred policy acquisition costs	573	67	–	640
Receivables and other assets	393	290	–	683
Distribution agreement, gross of deferred tax	1,670	337	–	2,007
Present value of future profits, gross of deferred tax	309	–	–	309
Assets acquired	15,532	1,301	3	16,835
Liabilities for investment contracts	(309)	–	–	(309)
Reserves for insurance contracts	(11,775)	(391)	–	(12,166)
Other liabilities	(540)	(297)	–	(837)
Deferred tax liabilities	(491)	(108)	–	(599)
Senior and subordinated debt	–	–	(511)	(511)
Liabilities acquired	(13,114)	(796)	(511)	(14,422)
Net assets acquired	2,417	504	(508)	2,413
Non-controlling interests				(1,183)
Total acquisition costs				1,231
Cash consideration				1,156
Fair value of contingent consideration				99
Preliminary purchase price adjustment				(23)

The financial result for the period from the acquisition dates to December 31, 2012 is included in the Group’s consolidated income statement for the year ended December 31, 2012. The main income statement information for Zurich Santander is shown in table 5.2.

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Income statement information

Table 5.2

in USD millions	Global Life	General Insurance	Core business total	Other Operating Businesses	Total
Information from acquisition to December 31, 2012					
Life insurance deposits	2,461	–	2,461	–	2,461
Gross written premiums and policy fees	2,050	720	2,770	–	2,770
Total BOP revenues	3,214	456	3,669	(18)	3,651
Business operating profit before non-controlling interests	246	120	367	(43)	323
Business operating profit after non-controlling interests	126	61	187	(22)	165
Net income after taxes before non-controlling interests					220
Net income after taxes after non-controlling interests					112
Pro forma 2011 information[1]					
Gross written premium for 12 months	2,326	677	3,003	n/a	3,003
Net income after taxes for 12 months					372

[1] Based on local GAAP information, as full year IFRS information is not available. The information is deemed to be a reasonable approximation but excludes the amortization of identifiable intangible assets and PVFP.

On September 30, 2011, the Group completed the acquisition of 100 percent of Malaysian Assurance Alliance Berhad, now known as Zurich Insurance Malaysia Berhad (ZIMB), a composite insurer based in Malaysia, together with 100 percent of four related services companies. The acquisition of ZIMB 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 138 million (initially USD 135 million) included an initial consideration of USD 108 million and an anticipated purchase price adjustment amounting to USD 30 million (initially USD 27 million). As of December 31, 2012, out of the initial consideration of USD 108 million, USD 63 million (initially USD 56 million) had been paid in cash, USD 45 million (initially USD 30 million) was placed in escrow and initially an amount of USD 22 million had been retained by the Group. The Group is still in the process of finalizing the purchase price adjustment. The amount in escrow is to be held for a period of two years. Based on the final purchase accounting the fair value of net tangible assets acquired amounted to USD 102 million (initially USD 113 million) and identifiable intangible assets, net of deferred tax, amounted to USD 19 million which mainly consisted of the PVFP of the acquired insurance contracts. Residual goodwill amounted to USD 17 million (initially USD 3 million), partly reflecting the future growth opportunities. In addition, the Group has injected approximately USD 135 million of capital into ZIMB immediately following 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 shareholdings to the Group at a price contingent upon the achievement of future profit targets by 2Plan Group Limited. Based on the final purchase accounting the tangible net assets acquired amounted to negative USD 5 million and identifiable intangible assets, net of deferred tax, amounted to USD 2 million consisting of software and capitalized recruitment director fees. Goodwill amounted to USD 3 million (initially 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 these companies 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.

6. Investments

Total investments 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 contracts with discretionary participation features. 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.

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	
	2012	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents	60	65	(4)	10	56	75
Equity securities	1,796	1,819	8,961	(5,193)	10,757	(3,374)
Debt securities	5,395	5,684	2,552	1,158	7,947	6,842
Real estate held for investment	816	859	(331)	(33)	485	825
Mortgage loans	428	494	(100)	(135)	328	358
Other loans	792	873	17	202	810	1,075
Investments in associates and joint ventures	18	12	1	(45)	18	(33)
Derivative financial instruments[1]	–	–	(463)	918	(463)	918
Investment result, gross	9,307	9,805	10,632	(3,119)	19,939	6,685
Investment expenses	(760)	(863)	–	–	(760)	(863)
Investment result, net	**8,547**	**8,942**	**10,632**	**(3,119)**	**19,179**	**5,823**

[1] Net capital losses on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD 7 million and USD 13 million for the years ended December 31, 2012 and 2011, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 194 million and USD 203 million for the years ended December 31, 2012 and 2011, respectively.

Consolidated financial statements *continued*

Investment result for Group investments

Table 6.1b

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments and impairments		Investment result	
	2012	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents	44	62	1	1	45	63
Equity securities	331	329	549	311	879	641
Debt securities	5,096	5,375	1,968	923	7,064	6,297
Real estate held for investment	506	531	12	46	517	576
Mortgage loans	428	494	(100)	(135)	328	358
Other loans	540	635	79	202	618	837
Investments in associates and joint ventures	18	12	1	(45)	18	(33)
Derivative financial instruments[1]	–	–	(307)	880	(307)	880
Investment result, gross, for Group investments	6,963	7,437	2,201	2,182	9,163	9,619
Investment expenses for Group investments	(252)	(252)	–	–	(252)	(252)
Investment result, net, for Group investments	**6,711**	**7,185**	**2,201**	**2,182**	**8,911**	**9,367**

[1] Net capital losses on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD 7 million and USD 13 million for the years ended December 31, 2012 and 2011, respectively.

Impairment charges on Group investments included in net capital gains/losses on investments and impairments amounted to USD 208 million and USD 458 million, including impairment charges on mortgage loans and other loans of USD 114 million and USD 133 million, for the years ended December 31, 2012 and 2011, respectively.

Investment result for unit-linked contracts

Table 6.1c

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments		Investment result	
	2012	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents	16	3	(4)	9	12	12
Equity securities	1,466	1,490	8,412	(5,505)	9,878	(4,015)
Debt securities	299	309	584	236	884	545
Real estate held for investment	310	328	(342)	(79)	(32)	249
Other loans	253	237	(62)	–	191	237
Derivative financial instruments	–	–	(157)	38	(157)	38
Investment result, gross, for unit-linked contracts	2,344	2,367	8,431	(5,302)	10,775	(2,934)
Investment expenses for unit-linked contracts	(508)	(610)	–	–	(508)	(610)
Investment result, net, for unit-linked contracts	**1,836**	**1,757**	**8,431**	**(5,302)**	**10,268**	**(3,544)**

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

Table 6.2

in USD millions, for the years ended December 31	Equity securities		Debt securities		Total	
	2012	2011	**2012**	2011	**2012**	2011
Securities at fair value through profit or loss:	8,654	(5,472)	924	777	9,578	(4,695)
Net capital gains/(losses) on Group investments	242	33	339	541	581	574
of which:						
Trading securities	*10*	12	*5*	5	*15*	17
Securities designated at fair value through profit or loss	*232*	20	*334*	537	*567*	557
Net capital gains/(losses) for unit-linked contracts	8,412	(5,505)	584	236	8,996	(5,269)
Available-for-sale securities:	307	279	1,628	382	1,935	660
Realized capital gains on Group investments	552	705	2,120	1,278	2,672	1,983
Realized capital losses on Group investments	(163)	(156)	(480)	(841)	(643)	(997)
Impairments on Group investments	(82)	(270)	(12)	(55)	(95)	(325)
Total net capital gains/(losses) and impairments	**8,961**	**(5,193)**	**2,552**	**1,158**	**11,512**	**(4,035)**

Table 6.3a

Details of total investments by category

as of December 31	Total investments			
	2012		2011	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	10,359	3.1	10,162	3.3
Equity securities:				
Fair value through profit or loss	103,689	31.1	93,978	30.1
of which:				
Trading securities	*410*	*0.1*	*438*	*0.1*
Securities designated at fair value through profit or loss	*103,279*	*30.9*	*93,540*	*30.0*
Available-for-sale	8,796	2.6	8,207	2.6
Total equity securities	112,485	33.7	102,185	32.8
Debt securities:				
Fair value through profit or loss	21,047	6.3	20,605	6.6
of which:				
Trading securities	*48*	*0.0*	*42*	*0.0*
Securities designated at fair value through profit or loss	*20,999*	*6.3*	*20,563*	*6.6*
Available-for-sale	141,597	42.4	130,196	41.7
Held-to-maturity	5,012	1.5	5,535	1.8
Total debt securities	167,656	50.2	156,335	50.1
Real estate held for investment	12,041	3.6	12,370	4.0
Mortgage loans	10,519	3.1	11,058	3.5
Other loans	20,702	6.2	19,683	6.3
Investments in associates and joint ventures	172	0.1	161	0.1
Total investments	**333,934**	**100.0**	**311,953**	**100.0**

Table 6.3b

Details of Group investments by category

as of December 31	Group investments			
	2012		2011	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	9,098	4.4	8,882	4.5
Equity securities:				
Fair value through profit or loss	3,545	1.7	4,443	2.2
of which:				
Trading securities	*410*	*0.2*	*438*	*0.2*
Securities designated at fair value through profit or loss	*3,135*	*1.5*	*4,006*	*2.0*
Available-for-sale	8,796	4.2	8,207	4.2
Total equity securities	12,341	5.9	12,650	6.4
Debt securities:				
Fair value through profit or loss	8,985	4.3	8,780	4.4
of which:				
Trading securities	*48*	*0.0*	*42*	*0.0*
Securities designated at fair value through profit or loss	*8,937*	*4.3*	*8,738*	*4.4*
Available-for-sale	141,597	67.8	130,196	65.9
Held-to-maturity	5,012	2.4	5,535	2.8
Total debt securities	155,594	74.6	144,511	73.1
Real estate held for investment	8,561	4.1	8,472	4.3
Mortgage loans	10,519	5.0	11,058	5.6
Other loans	12,423	6.0	11,944	6.0
Investments in associates and joint ventures	172	0.1	161	0.1
Total Group investments	**208,707**	**100.0**	**197,677**	**100.0**

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Cash and investments with a carrying value of USD 6,340 million and USD 6,227 million were deposited on behalf of regulatory authorities as of December 31, 2012 and 2011, respectively.

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

As of December 31, 2012 and 2011, respectively, investments included USD 7,751 million and USD 6,298 million of loaned securities. These loaned securities were mainly debt securities. Liabilities for cash collateral received for securities lending comprised USD 330 million and USD 159 million as of December 31, 2012 and 2011, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 8,085 million and USD 6,474 million as of December 31, 2012 and 2011, respectively. The Group can sell or repledge the collateral only in the event of a default by a counterparty.

As of December 31, 2012 and 2011, respectively, debt securities with a carrying value of USD 1,550 million and USD 1,807 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 1,539 million and USD 1,794 million as of December 31, 2012 and 2011, 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.

Table 6.3c

Details of investments held for unit-linked contracts

as of December 31	Investments for unit-linked contracts			
	2012		2011	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	1,261	1.0	1,280	1.1
Equity securities	100,144	80.0	89,535	78.3
Debt securities	12,062	9.6	11,825	10.3
Real estate	3,481	2.8	3,898	3.4
Other loans	8,279	6.6	7,739	6.8
Total investments for unit-linked contracts	**125,226**	**100.0**	**114,276**	**100.0**

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

Accrued interest on unit-linked investments included in accrued investment income amounted to USD 210 million and USD 303 million as of December 31, 2012 and December 31, 2011, respectively.

Table 6.4

Debt securities maturity schedule (total investments)

in USD millions, as of December 31	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2012	2011	2012	2011	2012	2011
Debt securities:						
< 1 year	493	680	10,072	11,224	4,004	4,486
1 to 5 years	2,188	2,225	46,027	41,316	5,441	5,050
5 to 10 years	527	613	33,784	30,306	3,867	3,803
> 10 years	1,805	2,017	32,233	26,939	6,747	6,195
Subtotal	5,012	5,535	122,115	109,786	20,058	19,533
Mortgage and asset-backed securities:						
< 1 year	–	–	540	866	26	41
1 to 5 years	–	–	5,358	6,417	406	365
5 to 10 years	–	–	2,175	3,361	114	252
> 10 years	–	–	11,407	9,765	443	414
Subtotal	–	–	19,481	20,410	988	1,072
Total	**5,012**	**5,535**	**141,597**	**130,196**	**21,047**	**20,605**

The analysis in table 6.4 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.

Table 6.5

Available-for-sale securities

in USD millions, as of December 31	Cost or amortized cost[1]		Gross unrealized gains		Gross unrealized losses		Fair value	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Equity securities								
Common stock	4,515	3,979	1,841	1,490	(331)	(417)	6,025	5,051
Unit trusts	2,434	2,997	398	309	(247)	(309)	2,584	2,997
Non-redeemable preferred stock	167	159	21	8	(3)	(8)	186	158
Total equity securities	**7,117**	**7,134**	**2,259**	**1,806**	**(581)**	**(733)**	**8,796**	**8,207**
Debt securities								
Swiss federal and cantonal governments	3,925	3,104	466	511	(3)	–	4,388	3,615
United Kingdom government	7,566	7,257	496	736	(8)	(3)	8,054	7,989
United States government	10,560	8,498	340	549	(55)	(42)	10,845	9,005
Other governments and supra-nationals	36,226	34,744	2,795	1,553	(350)	(1,302)	38,672	34,995
Corporate securities	55,792	52,902	5,738	3,720	(1,386)	(2,460)	60,145	54,162
Mortgage and asset-backed securities	18,838	19,713	730	939	(87)	(242)	19,481	20,410
Redeemable preferred stocks	10	37	2	1	–	(19)	12	19
Total debt securities	**132,917**	**126,255**	**10,568**	**8,008**	**(1,888)**	**(4,068)**	**141,597**	**130,196**

[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	
	2012		2011		2012	2011	2012	2011
	USD millions	% of total	USD millions	% of total	USD millions	USD millions	USD millions	USD millions
Equity securities:								
Common stock	2,204	17.6	2,539	19.2	39,800	38,176	42,003	40,715
of which: common stock portfolios backing participating with profit policyholder contracts	*534*	*4.3*	*498*	*3.8*	–	–	*534*	*498*
Unit trusts	1,341	10.7	1,901	14.4	60,297	51,248	61,638	53,149
Non-redeemable preferred stock	–	0.0	3	0.0	47	111	47	114
Total equity securities	**3,545**	**28.3**	**4,443**	**33.6**	**100,144**	**89,535**	**103,689**	**93,978**
Debt securities:								
Debt securities	8,221	65.6	7,923	59.9	11,837	11,610	20,058	19,533
Mortgage and asset-backed securities	763	6.1	857	6.5	225	214	988	1,072
Total debt securities	**8,985**	**71.7**	**8,780**	**66.4**	**12,062**	**11,825**	**21,047**	**20,605**
Total	**12,530**	**100.0**	**13,224**	**100.0**	**112,206**	**101,359**	**124,736**	**114,583**

Held-to-maturity debt securities

Table 6.7

as of December 31	2012		2011	
	USD millions	% of total	USD millions	% of total
Swiss federal and cantonal governments	1,847	36.9	1,804	32.6
United States government	1,627	32.5	1,839	33.2
Other governments and supra-nationals	1,168	23.3	1,148	20.7
Corporate securities	370	7.4	743	13.4
Total held-to-maturity debt securities	**5,012**	**100.0**	**5,535**	**100.0**

Real estate held for investment (total investments)

Table 6.8

in USD millions	Total	
	2012	2011
As of January 1	12,370	12,355
Additions and improvements	316	267
Acquisitions	–	120
Disposals	(702)	(396)
Market value revaluation	(206)	40
Transfer from assets held for own use	–	116
Transfer to assets held for sale	(89)	–
Foreign currency translation effects	353	(133)
As of December 31	**12,041**	**12,370**

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	
	2012	2011	**2012**	2011	**2012**	2011
Associates:						
Seven Investment Management Limited	21	19	1	2	49.00%	49.00%
Other	18	16	4	2	–	–
Joint ventures:						
MCIS Zurich Insurance Berhad	43	41	5	4	40.00%	40.00%
Other	3	3	1	1	–	–
SPEs:[1]						
Euclid Office, L.P.	32	29	2	2	99.00%	99.00%
Dallas Tower, L.P.	14	13	1	1	99.00%	99.00%
Other	42	39	4	–	–	–
Total	**172**	**161**	**18**	**12**	**–**	**–**

[1] The Group has several special purpose entities (SPEs) in the U.S. which are consolidated using the equity method as a reasonable approximation, as the equity interest 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	
	2012	2011
Equity securities: available-for-sale	1,679	1,072
Debt securities: available-for-sale	8,679	3,941
Other	300	295
Less amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(3,918)	(1,349)
Present value of future profits	(523)	(199)
Life deferred acquisition costs and present value of future profits	(48)	103
Deferred income taxes	(1,385)	(834)
Non-controlling interests	(23)	3
Total[1]	**4,762**	**3,032**

[1] Net unrealized gains/(losses) include net gains arising on cash flow hedges of USD 238 million and USD 232 million as of December 31, 2012 and 2011, respectively. In 2012 and 2011 the Group applied the cash flow hedge methodology to hedge foreign currency risk exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge interest rate exposure with changes in the fair value being recorded through the income statement.

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7. Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments mainly for economic hedging purposes in order to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates.

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2012 and 2011, 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 derivative financial instruments are included in the consolidated balance sheets in receivables and other assets, and other liabilities.

In certain circumstances derivative financial 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 is set out in table 7.2.

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

Table 7.1

in USD millions, as of December 31						2012			2011
	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	267	1,416	3,610	5,292	349	(45)	4,274	307	(14)
Swaptions	363	4,682	4,364	9,408	242	(104)	8,012	560	(43)
Exchange traded									
Futures	8	–	–	8	–	–	997	–	–
Total interest rate contracts	**638**	**6,097**	**7,974**	**14,709**	**591**	**(148)**	**13,284**	**867**	**(58)**
Equity contracts:									
OTC									
Swaps	42	–	–	42	–	(2)	36	–	(1)
Puts	7,093	940	1,821	9,854	220	(119)	4,019	253	(264)
Calls	1,670	1,545	–	3,214	62	(81)	2,115	41	(75)
Exchange traded									
Puts	49	–	–	49	1	–	44	4	–
Calls	–	–	–	–	–	–	22	–	(1)
Futures	503	–	–	503	1	(3)	511	–	(8)
Total equity contracts	**9,358**	**2,485**	**1,821**	**13,663**	**284**	**(206)**	**6,747**	**298**	**(347)**
Foreign exchange contracts:									
OTC									
Cross currency swaps	444	–	–	444	–	(45)	423	–	(28)
Options	–	–	–	–	–	–	789	–	(11)
Forwards	13,681	–	–	13,681	45	(84)	14,205	124	(110)
Total foreign exchange contracts	**14,124**	**–**	**–**	**14,124**	**45**	**(129)**	**15,418**	**124**	**(149)**
Credit contracts:									
OTC									
Credit default swaps	–	–	–	–	–	–	160	–	(1)
Total credit contracts	**–**	**–**	**–**	**–**	**–**	**–**	**160**	**–**	**(1)**
Other contracts:									
OTC									
Puts	–	–	93	93	–	–	523	–	(52)
Swaps	–	–	66	66	–	(11)	69	–	(9)
Total other contracts	**–**	**–**	**159**	**159**	**–**	**(11)**	**591**	**–**	**(61)**
Total Group derivative financial instruments	24,120	8,582	9,955	42,656	920	(494)	36,200	1,290	(616)
Total unit-linked derivative financial instruments	1,180	879	54	2,113	62	(5)	1,886	65	(37)
Total	**25,300**	**9,461**	**10,008**	**44,769**	**982**	**(500)**	**38,085**	**1,356**	**(653)**

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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 changes compared with December 31, 2011 were an increase of interest rate swaps related to a closed book of variable annuities products within the U.S. life business and an increase of swaptions, mainly long receiver, in order to protect the German and the Irish life insurance books against falling interest rates.

Equity contracts

Equity contracts are entered into, either on a portfolio and/or a macro level to protect equity investments against a decline in equity market prices or to manage the risk return profile of equity exposures. Most equity contracts are purchased put options.

The increase in the notional amount of put options between December 31, 2012 and December 31, 2011 was mainly driven by two new hedges to reduce the equity risk and to protect the Group against the tail risk related to the euro debt crisis. Total return swaps and exchange traded options relating 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 for some life portfolios and the written put positions are part of the dynamic hedge or are fully backed by long put positions and relate only to legacy positions.

Foreign exchange contracts

Foreign exchange contracts are cross currency swaps and forward contracts which are used to hedge the Group's foreign currency exposures and to manage balance sheet mismatches. As of December 31, 2012 there was no open forward option position.

The decrease in notional amounts of foreign exchange forwards between December 31, 2011 and December 31, 2012, was mostly volume driven.

Credit contracts

As of December 31, 2012, there were no open positions for this product class, mainly as a result of matured positions.

Other contracts

Other contracts predominantly include stable value products (SVPs), which are designed to amortize on a quarterly basis investment gains and losses of the investment portfolios underlying certain life insurance policies, which are owned by banks (Bank Owned Life Insurance or BOLI) and other companies (Company Owned Life Insurance or COLI). 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 the tax-exempt investment returns of such separate account portfolios. The policies are long duration contracts providing charges and benefits over a policy life that can be greater than 45 years. When SVPs form part of these investment portfolios, they reduce the volatility of the policyholders' investment returns. In the event that a policy is surrendered which has a positive SVP value, the policyholder would be entitled to recover such SVP value as well as the market value of the underlying investments. Certain policy features as well as the applicable tax 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 SVPs. During 2012, there were no surrenders compared with two policy surrenders in 2011. The fair value of the derivative liability recognized in respect of the SVPs, was nil and USD 52 million as of December 31, 2012 and 2011, respectively. The notional SVP derived value was USD 93 million and USD 523 million as of December 31, 2012 and 2011, respectively, representing the total loss before surrender charges in the unlikely event that all policies would have been surrendered on those dates.

Table 7.2 sets out details of fair value, cash flow and net investment hedges:

Table 7.2

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

in USD millions, as of December 31						2012			2011
	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	672	858	–	1,530	252	–	1,518	269	–
Currency swaps	–	8	61	69	–	(40)	69	–	(38)
Interest rate swaps	–	–	1,097	1,097	37	–	–	–	–
Total fair value hedges	**672**	**865**	**1,158**	**2,695**	**288**	**(40)**	**1,588**	**269**	**(38)**
Cash flow hedges:									
Options on interest rate swaps	–	923	2,284	3,207	438	–	3,130	414	–
Currency swaps	–	1,768	–	1,768	90	–	1,768	75	(9)
Interest rate swaps	33	88	39	159	14	–	203	11	–
Total cash flow hedges	**33**	**2,779**	**2,323**	**5,135**	**542**	**–**	**5,102**	**501**	**(9)**
Net investment hedges:									
Forwards	273	–	–	273	–	(2)	–	–	–
Total net investment hedges	273	–	–	273	**–**	**(2)**	**–**	**–**	**–**

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 note 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 1.0 billion 4.5 percent senior note 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 note 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.

A fair value hedge relationship on the CHF 400 million 1.5 percent senior note due for repayment in June 2019 issued by Zurich Insurance Company Ltd (see note 21), was entered into on June 25, 2012 and will end on the maturity of the underlying debt instrument in 2019.

A fair value hedge relationship on the EUR 500 million 3.375 percent senior note due for repayment in June 2022 issued by Zurich Insurance Company Ltd (see note 21), was entered into on June 27, 2012 and will end on the maturity of the underlying debt instrument in 2022.

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 derivative financial instruments designated as fair value hedges and changes in the fair value of the hedged item in relation to the risk being hedged are both recognized in income.

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Table 7.3 sets out gains and losses arising from fair value hedges:

Gains/(losses) arising from fair value hedges

Table 7.3

in USD millions, as of December 31	2012	2011
Gains/(losses)		
on hedging instruments[1]	*20*	*(6)*
on hedged items attributable to the hedged risk	*(30)*	*–*

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

Cash flow hedges

Designated cash flow hedges, such as options on interest rate swaps are used to protect the Group against variability of future cash flows due to changes in interest rates associated with expected future purchases of debt securities (during the years 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, 2012 the following cash flow hedge relationships were in place (see note 21):

- 80 percent of the EUR 1.0 billion 4.5 percent senior note 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 note 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 derivative financial instruments designated as cash flow hedges were USD 4 million and USD 245 million before tax for the years ended December 31, 2012 and 2011, respectively.

The portion recognized in income was a gain of USD 35 million and a loss of USD 53 million before tax for the years ended December 31, 2012 and 2011, respectively, as an offset to the foreign currency revaluation on the underlying hedged debt.

A loss of USD 7 million and USD 13 million for the years ended December 31, 2012 and 2011, respectively, was recognized in net capital gains/(losses) and impairments due to hedge ineffectiveness.

Net investment hedges

In December 2012, the Group started to apply net investment hedge accounting in order to hedge against the effects of changes in exchange rates in its net investments in foreign operations. A net hedge relationship through a foreign exchange forward with a notional amount of GBP 168 million was in place for the year ended December 31, 2012.

Net losses deferred in shareholders' equity on net investment hedges were USD 2 million before tax for the year ended December 31, 2012.

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	
	2012	2011	**2012**	2011	**2012**	2011
Reserves for losses and loss adjustment expenses	69,986	67,762	(12,601)	(12,421)	57,385	55,341
Reserves for unearned premiums	17,300	17,661	(2,666)	(2,532)	14,634	15,129
Future life policyholders' benefits	83,807	80,584	(2,507)	(2,583)	81,300	78,001
Policyholders' contract deposits and other funds	20,024	18,356	(2,106)	(2,181)	17,917	16,175
Reserves for unit-linked contracts	74,117	68,844	–	–	74,117	68,844
Total reserves for insurance contracts[1]	**265,233**	**253,207**	**(19,880)**	**(19,717)**	**245,353**	**233,490**

[1] The total reserves for insurance contracts ceded are gross of allowance for uncollected amounts of USD 127 million and USD 125 million as of December 31, 2012 and December 31, 2011, respectively.

Development of reserves for losses and loss adjustment expenses

Table 8.2

in USD millions	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
As of January 1	67,762	68,274	(12,421)	(12,093)	55,341	56,180
Losses and loss adjustment expenses incurred:						
Current year	27,612	28,522	(3,273)	(4,755)	24,340	23,767
Prior years	(676)	(1,650)	105	347	(571)	(1,302)
Total incurred	26,936	26,873	(3,168)	(4,408)	23,769	22,465
Losses and loss adjustment expenses paid:						
Current year	(10,548)	(10,777)	694	959	(9,853)	(9,817)
Prior years	(16,230)	(16,133)	2,706	3,041	(13,525)	(13,092)
Total paid	(26,778)	(26,910)	3,400	4,000	(23,378)	(22,909)
Acquisitions/(divestments) and transfers[1]	1,217	207	(257)	(26)	960	181
Foreign currency translation effects	849	(682)	(156)	106	693	(576)
As of December 31	**69,986**	**67,762**	**(12,601)**	**(12,421)**	**57,385**	**55,341**

[1] The 2012 net movement includes a transfer of USD 1,224 million from policyholders' contract deposits and other funds, partially offset by USD (235) million relating to a reinsurance agreement which transfers the benefits and risks of some of the Group's general insurance portfolio to RiverStone Insurance (UK) Limited, and by USD (33) million transferred to future life policyholders' benefits (see note 1). The 2011 net movement relates mainly to acquisitions/divestments (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 years 2012 and 2011.

The increase of USD 2,044 million during the year ended December 31, 2012 in net reserves for losses and loss adjustment expenses is mostly driven by the reclassification of USD 1,224 million transferred from policyholders' contract deposits and other funds to reserves for losses and loss adjustment expenses (see note 1), and the foreign currency impact of USD 693 million. Additionally, USD 571 million of favorable reserve development emerged from reserves established in prior years. Gross of reinsurance, the favorable development was USD 676 million. This favorable development was primarily attributable to the General Insurance business segment and mainly relates to the following movements by market-facing business, country and line of business:

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- In Global Corporate, favorable development of USD 199 million was driven by Europe essentially originating from Switzerland, the UK and Ireland. The development occurred mostly in the property and engineering lines of business;
- In North America Commercial, favorable development of USD 203 million arose mostly from medical malpractice, general liability, errors and omissions and the Canadian operations;
- The personal and commercial business in Europe reported favorable prior year development of USD 90 million. The favorable development was driven by USD 435 million in Switzerland, mostly in motor, and USD 96 million in the UK and Ireland, coming from many lines of business. Partially offsetting this, Germany reported an adverse development of USD 476 million arising mainly from the medical and professional liability lines of business.

The Non-Core Businesses segment additionally added to the adverse development.

The decrease of USD 839 million during the year ended December 31, 2011 in net reserves for losses and loss adjustment expenses included 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 mainly related to the following movements by market-facing business, country and line of business:

- 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;
- In 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 favorable amounts. This was offset by Germany with 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	2003	2004	2005	2006	2007	2008	2009	2010	2011	**2012**
Gross reserves for losses and loss adjustment expenses	51,068	57,765	60,425	64,535	67,890	65,218	68,126	68,274	67,762	69,986
Reinsurance recoverable	(14,055)	(14,279)	(14,231)	(13,722)	(13,179)	(12,232)	(12,182)	(12,093)	(12,421)	(12,601)
Initial net reserves for losses and loss adjustment expenses	37,013	43,486	46,194	50,814	54,712	52,986	55,944	56,180	55,341	57,385
Cumulative paid as of December 31:										
One year later	*(9,930)*	*(9,464)*	*(11,423)*	*(11,237)*	*(12,551)*	*(13,047)*	*(12,716)*	*(13,092)*	(13,525)	
Two years later	*(15,550)*	*(16,273)*	*(18,044)*	*(18,362)*	*(19,660)*	*(19,909)*	*(19,821)*	*(21,073)*		
Three years later	*(20,407)*	*(21,234)*	*(23,077)*	*(23,421)*	*(24,428)*	*(24,693)*	*(25,623)*			
Four years later	*(23,941)*	*(24,945)*	*(26,850)*	*(26,839)*	*(27,735)*	*(28,808)*				
Five years later	*(26,616)*	*(27,798)*	*(29,425)*	*(29,224)*	*(30,690)*					
Six years later	*(28,668)*	*(29,810)*	*(31,189)*	*(31,483)*						
Seven years later	*(30,245)*	*(31,148)*	*(33,030)*							
Eight years later	*(31,274)*	*(32,655)*								
Nine years later	*(32,423)*									
Cumulative incurred as of December 31:										
One year later	*1,964*	*141*	*(218)*	*(1,219)*	*(1,271)*	*(1,059)*	*(1,378)*	*(1,302)*	(571)	
Two years later	*3,400*	*1,520*	*(367)*	*(2,171)*	*(2,152)*	*(2,350)*	*(2,565)*	*(1,819)*		
Three years later	*4,991*	*1,839*	*(897)*	*(2,686)*	*(2,844)*	*(3,048)*	*(2,700)*			
Four years later	*5,241*	*1,808*	*(945)*	*(3,003)*	*(3,533)*	*(3,176)*				
Five years later	*5,457*	*2,118*	*(1,044)*	*(3,438)*	*(3,580)*					
Six years later	*6,004*	*2,194*	*(1,184)*	*(3,279)*						
Seven years later	*6,094*	*2,254*	*(841)*							
Eight years later	*6,223*	*2,686*								
Nine years later	*6,662*									
Net reserves re-estimated as of December 31:										
One year later	*38,977*	*43,627*	*45,976*	*49,594*	*53,441*	*51,927*	*54,565*	*54,878*	54,770	
Two years later	*40,413*	*45,006*	*45,827*	*48,642*	*52,559*	*50,637*	*53,379*	*54,361*		
Three years later	*42,004*	*45,325*	*45,297*	*48,127*	*51,868*	*49,939*	*53,243*			
Four years later	*42,254*	*45,294*	*45,249*	*47,811*	*51,179*	*49,810*				
Five years later	*42,470*	*45,604*	*45,150*	*47,376*	*51,131*					
Six years later	*43,017*	*45,680*	*45,010*	*47,535*						
Seven years later	*43,107*	*45,740*	*45,353*							
Eight years later	*43,236*	*46,172*								
Nine years later	*43,675*									
Cumulative (deficiency)/ redundancy of net reserves	(6,662)	(2,686)	841	3,279	3,580	3,176	2,700	1,819	571	
Cumulative (deficiency)/ redundancy as a percentage of initial net reserves	(18.0%)	(6.2%)	1.8%	6.5%	6.5%	6.0%	4.8%	3.2%	1.0%	
Gross reserves re-estimated as of December 31, 2012	60,188	61,592	60,182	60,669	63,258	60,993	64,138	65,876	67,086	
Cumulative (deficiency)/ redundancy of gross reserves	(9,120)	(3,827)	243	3,866	4,633	4,225	3,988	2,398	676	
Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves	(17.9%)	(6.6%)	0.4%	6.0%	6.8%	6.5%	5.9%	3.5%	1.0%	

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Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Group established in 2003 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, 2012. 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.

Table 8.4

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

in USD millions		2012		2011
	Gross	Net	Gross	Net
Asbestos				
As of January 1	3,283	2,867	3,408	2,863
Losses and loss adjustment expenses incurred	51	37	42	80
Losses and loss adjustment expenses paid	(134)	(110)	(159)	(68)
Acquisitions/(divestments) and transfers[1]	–	(127)	–	–
Foreign currency translation effects	132	112	(8)	(8)
As of December 31	**3,332**	**2,779**	**3,283**	**2,867**
Environmental				
As of January 1	286	198	290	223
Losses and loss adjustment expenses incurred	67	79	36	–
Losses and loss adjustment expenses paid	(67)	(55)	(41)	(25)
Acquisitions/(divestments) and transfers[1]	–	(21)	–	–
Foreign currency translation effects	1	–	1	–
As of December 31	**288**	**202**	**286**	**198**

[1] The 2012 net movement relates to a reinsurance agreement which transfers the benefits and risks of some of the Group's general insurance portfolio to RiverStone Insurance (UK) Limited, prior to a portfolio sale until regulatory clearance is obtained.

The Group has considered asbestos and environmental, including 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 increased by USD 49 million gross but decreased USD 89 million net during 2012. During 2011, the gross reserve decreased by USD 125 million but increased USD 4 million on a net basis. As a significant portion of the Group's reserves are held in British pounds, there was an increase in gross and net reserves reported for 2012 due to the strengthening of the currency compared with the U.S. dollar. Without this effect, the total gross reserve would also have decreased. In addition, in 2012, following an in-depth review of asbestos, pollution and health (APH) book of business in the U.S., gross and net reserves were strengthened. Despite these increases, the total net reserves have decreased due to a reinsurance agreement which transfers the benefits and risks of some of the Group's APH portfolio to RiverStone Insurance (UK) Limited, prior to a portfolio sale until regulatory clearance is obtained.

For 2011, there was a decrease in gross and net reserves driven by the re-estimation of the ultimate liability for asbestos as well as the normal payout of claims. In addition, the decrease in gross reserves was partially offset by the increase in UK reserves, which contributed also to the overall increase in net reserves. This increase in UK gross and net reserves followed a court ruling in Scotland and Northern Ireland related to the impact of pleural plaques losses.

Reserves for environmental claims increased by USD 2 million gross and USD 4 million net, but decreased by USD 4 million gross and by USD 25 million net during the years ended December 31, 2012 and 2011, respectively.

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	
	2012	2011	**2012**	2011	**2012**	2011
As of January 1	80,584	79,315	(2,583)	(2,423)	78,001	76,891
Premiums	8,867	8,736	(541)	(511)	8,326	8,225
Claims	(9,168)	(10,463)	414	426	(8,754)	(10,036)
Fee income and other expenses	(1,789)	(2,072)	182	87	(1,608)	(1,985)
Interest and bonuses credited to policyholders	2,649	3,257	(75)	(161)	2,575	3,096
Change in assumptions	(147)	423	155	(23)	8	400
Acquisitions/transfers[1]	1,065	2,815	(14)	(7)	1,051	2,808
(Decreases)/increases recorded in other comprehensive income	167	252	–	–	167	252
Foreign currency translation effects	1,579	(1,679)	(45)	29	1,534	(1,650)
As of December 31	**83,807**	**80,584**	**(2,507)**	**(2,583)**	**81,300**	**78,001**

[1] The 2012 net movement includes USD 937 million transferred from reserves for unearned premiums, USD 66 million transferred from policyholders' contract deposits and other funds, USD 33 million transferred from loss reserves (see note 1) and USD 15 million from the acquisition of ZIMB (see note 5). The 2011 net movement includes reserves acquired with Zurich Santander of USD 1,258 million, as well as USD 1,353 million acquired with ZIMB (see note 5). Additionally it includes reclassifications of USD 212 million transferred from other liabilities, partly offset by USD (27) million transferred to liabilities for investment contracts (see note 1 of the Consolidated financial statements 2011).

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.

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The net impact of changes in assumptions on net future life policyholders' benefits was USD 8 million and USD 400 million for the years ended December 31, 2012 and 2011, respectively. The net changes are shown in table 8.6.

Table 8.6

Effect of changes in assumptions for future life policyholders' benefits

in USD millions, for the year ended December 31	**2012**	2011
Interest rates	223	451
Legislative Changes	88	–
Morbidity	(1)	(38)
Longevity	(4)	(1)
Lapses	(7)	(29)
Investment return	(51)	(63)
Changes in modelling	(58)	(4)
Expense	(75)	(12)
Other	(108)	96
Net impact of changes in assumptions	**8**	**400**

Table 8.7

Policyholders' contract deposits and other funds gross

in USD millions, as of December 31	**2012**	2011
Annuities[1]	–	1,320
Universal life and other contracts	12,219	11,681
Policyholder dividends	7,804	5,355
Total	**20,024**	**18,356**

[1] Annuities were reclassified to reserves for losses and loss adjustment expenses and future life policyholders' benefits (see note 1).

Table 8.8

Development of policyholders' contract deposits and other funds

in USD millions		Gross		Ceded		Net
	2012	2011	**2012**	2011	**2012**	2011
As of January 1	18,356	17,430	(2,181)	(2,246)	16,175	15,184
Premiums	1,157	1,395	(27)	(60)	1,131	1,335
Claims	(1,269)	(1,421)	211	195	(1,058)	(1,225)
Fee income and other expenses	(230)	(344)	(60)	7	(290)	(337)
Interest and bonuses credited to policyholders	708	628	(81)	(79)	627	549
Change in assumptions	–	91	–	–	–	91
Acquisitions/transfers[1]	(1,308)	373	32	–	(1,276)	373
(Decrease)/increase recorded in other comprehensive income	2,313	477	–	–	2,313	477
Foreign currency translation effects	296	(273)	(1)	2	296	(271)
As of December 31	**20,024**	**18,356**	**(2,106)**	**(2,181)**	**17,917**	**16,175**

[1] The 2012 net movement includes USD (1,224) million transferred to loss reserves and loss adjustment expenses and USD (66) million transferred to future life policyholders' benefits (see note 1). The 2011 net movement includes USD 266 million from the acquisition of ZIMB and USD 107 million from Zurich Santander (see note 5).

Development of reserves for unit-linked contracts

Table 8.9

in USD millions	2012	2011
As of January 1	68,844	61,786
Premiums	11,064	9,263
Claims	(11,434)	(8,384)
Fee income and other expenses	(1,586)	(1,689)
Interest and bonuses credited/(charged) to policyholders	6,270	(1,274)
Acquisitions/transfers[1]	154	9,714
Foreign currency translation effects	804	(571)
As of December 31	**74,117**	**68,844**

[1] The 2012 movement includes USD 151 million transferred from liabilities for investment contract liabilities (see note 1). The 2011 net movement includes USD 9,634 million from Zurich Santander and USD 221 million acquired with ZIMB (see note 5). Additionally it includes a reclassification of USD (140) million to liabilities for investment contracts (see note 1 of the Consolidated financial statements 2011).

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9. Liabilities for investment contracts

Liabilities for investment contracts

Table 9.1

in USD millions, as of December 31	2012	2011
Liabilities related to unit-linked investment contracts	50,923	44,220
Liabilities related to investment contracts (amortized cost)	1,305	1,131
Liabilities related to investment contracts with DPF	5,903	5,607
Total	**58,131**	**50,958**

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 derivative financial instruments. 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 initial valuation of 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	2012	2011
As of January 1	50,958	50,667
Premiums	7,307	7,934
Claims	(6,353)	(5,762)
Fee income and other expenses	(609)	(573)
Interest and bonuses charged/(credited) to policyholders	4,983	(1,431)
Acquisitions/transfers[1]	(150)	852
Increase/(decrease) recorded in other comprehensive income	4	(6)
Foreign currency translation effects	1,991	(723)
As of December 31	**58,131**	**50,958**

[1] The 2012 movement includes USD (151) million transferred to reserves for unit-linked contracts (see note 1). The 2011 movement includes USD 309 million from Zurich Santander (see note 5), USD 140 million transferred from reserves for unit-linked contracts, USD 246 million transferred from other liabilities, USD 135 million transferred from non-technical provisions and USD 27 million transferred from future life policyholders' benefits (see note 1 of the Consolidated financial statements 2011).

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 table 10 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	2012	2011
As of January 1	1,488	2,168
Net unrealized (losses)/gains on investments	557	(676)
Current period profit	476	5
Foreign currency translation effects	39	(9)
As of December 31	**2,560**	**1,488**

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	
	2012	2011	**2012**	2011	**2012**	2011
Losses and loss adjustment expenses	26,936	26,873	(3,168)	(4,408)	23,769	22,465
Life insurance death and other benefits	10,334	11,259	(351)	(644)	9,983	10,615
Total insurance benefits and losses	**37,271**	**38,132**	**(3,519)**	**(5,052)**	**33,752**	**33,080**

Policyholder dividends and participation in profits

Table 11.2

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
Change in policyholders' contract deposits and other funds	1,210	644	(19)	(1)	1,190	643
Change in reserves for unit-linked products	6,153	(1,826)	–	–	6,153	(1,826)
Change in liabilities for investment contracts – unit-linked	4,166	(1,801)	–	–	4,166	(1,801)
Change in liabilities for investment contracts – other	233	224	–	–	233	224
Change in unit-linked liabilities related to UK capital gains tax	(264)	75	–	–	(264)	75
Total policyholder dividends and participation in profits	**11,499**	**(2,684)**	**(19)**	**(1)**	**11,479**	**(2,685)**

Underwriting and policy acquisition costs

Table 11.3

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
Amortization of deferred acquisition costs	6,484	5,365	(536)	(506)	5,948	4,860
Amortization of deferred origination costs	168	135	–	–	168	135
Commissions and other underwriting and acquisition expenses[1]	4,283	3,802	(384)	(280)	3,898	3,522
Total underwriting and policy acquisition costs	**10,934**	**9,302**	**(920)**	**(786)**	**10,014**	**8,516**

[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	
	2012	2011	**2012**	2011	**2012**	2011
Change in reserves for unearned premiums	**845**	**932**	**(103)**	**(181)**	**741**	**751**

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12. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 12.1

in USD millions	General Insurance		Global Life		Other segments[1]		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
As of January 1	3,482	3,332	13,584	12,686	353	169	17,420	16,187
Acquisition costs deferred	3,355	3,107	2,656	1,909	898	714	6,908	5,730
Amortization	(3,240)	(2,977)	(1,744)	(1,339)	(914)	(530)	(5,898)	(4,846)
Impairments	(39)	(14)	(11)	–	–	–	(50)	(14)
Amortization charged/(credited) to other comprehensive income	–	–	(314)	(21)	–	–	(314)	(21)
Acquisitions/divestments/transfers[2]	(3)	67	(5)	573	–	–	(8)	640
Foreign currency translation effects	(13)	(33)	301	(223)	–	–	288	(256)
As of December 31	**3,543**	**3,482**	**14,466**	**13,584**	**337**	**353**	**18,346**	**17,420**

[1] Net of eliminations from inter-segment transactions.
[2] The 2012 movement includes USD 5 million transferred to deferred origination costs in Global Life (see note 1) and USD 3 million in General Insurance mainly as a consequence of the loss of control over one of the Group's subsidiaries (see note 5). The 2011 movement includes the acquisition of Zurich Santander (see note 5).

Impairments in 2012 include USD 39 million, following a reassessment of the deferred policy acquisition costs in the General Insurance business in Germany.

As of December 31, 2012 and 2011, deferred policy acquisition costs related to non-controlling interests were USD 572 million and USD 499 million, respectively.

Development of deferred origination costs

Table 12.2

in USD millions	**2012**	2011
As of January 1	824	866
Origination costs deferred	79	101
Amortization	(168)	(135)
Transfers[1]	5	–
Foreign currency translation effects	29	(9)
As of December 31	**770**	**824**

[1] The 2012 movement consists of USD 5 million transferred from deferred policy acquisition costs (see note 1).

13. Administrative and other operating expense

Administrative and other operating expense

Table 13

in USD millions, for the years ended December 31	2012	2011
Wages and salaries	3,330	3,276
Other employee benefits	706	565
Amortization and impairments of intangible assets	874	805
Depreciation and impairments of property and equipment	210	191
Rent, leasing and maintenance	431	453
Marketing costs	212	209
Life recurring commission	365	386
Asset and other non-income taxes	131	58
IT costs	845	804
Litigation and settlement costs	97	77
Restructuring costs	210	222
Foreign currency translation	(53)	(157)
Other	1,302	1,380
Total	**8,661**	**8,270**

Table 13 reflects 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	2012	2011
Farmers management fees and other related revenues	**2,846**	**2,767**

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 18,703 million and USD 18,149 million for the years ended December 31, 2012 and 2011, 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. In 2012 the remaining mortgage loans were redeemed in line with the original contract terms.

Deutscher Herold had previously sold these loans to credit institutions while retaining the related credit and interest risk. Therefore the loans had not been derecognized from the consolidated balance sheets and the transaction was reflected as a collateralized borrowing. Accordingly, the loans were recorded as mortgage loans given as collateral and the liability to credit institutions as collateralized loans.

Table 15 shows the maturity schedule of collateralized loans as of December 31, 2011.

Maturity schedule – collateralized loans

Table 15

in USD millions, as of December 31		2011
	Carrying value[1]	Undiscounted cash flows[2]
< 1 year	113	113
2 to 3 years	42	42
3 to 4 years	12	12
4 to 5 years	2	2
> 5 years	54	54
Total	**223**	**223**

[1] Allocation to the time bands is based on the expected maturity date.
[2] 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, 2012	325	1,057	575	559	694	3,210
Less: accumulated depreciation/impairments	–	(348)	(423)	(464)	(395)	(1,630)
Net carrying value as of January 1, 2012	325	709	152	95	299	1,580
Additions and improvements	–	15	39	35	137	226
Disposals	(5)	(21)	(7)	(7)	(42)	(82)
Transfers	(7)	(3)	15	–	(15)	(9)
Depreciation and impairments	(7)	(33)	(43)	(44)	(84)	(210)
Foreign currency translation effects	7	15	1	–	3	26
Net carrying value as of December 31, 2012	**313**	**682**	**158**	**79**	**299**	**1,530**
Plus: accumulated depreciation/impairments	7	378	348	442	346	1,520
Gross carrying value as of December 31, 2012	**320**	**1,060**	**506**	**520**	**645**	**3,050**

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 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 January 1, 2011	352	777	107	96	357	1,689
Additions and improvements	–	7	51	48	93	199
Acquisitions[1]	18	63	4	–	1	86
Disposals	(5)	(10)	(1)	(1)	(28)	(44)
Transfers	(37)	(86)	33	(2)	(53)	(144)
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**	**1,580**
Plus: accumulated depreciation/impairments	–	348	423	464	395	1,630
Gross carrying value as of December 31, 2011	**325**	**1,057**	**575**	**559**	**694**	**3,210**

[1] Related to the acquisition of Zurich Santander and ZIMB (see note 5).

The fire insurance value of the Group's own-use property and equipment totaled USD 3,036 million and USD 2,917 million as of December 31, 2012 and 2011, 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, 2012	2,186	2,824	4,562	1,025	4,210	190	14,997
Less: accumulated amortization/impairments	(126)	(1,640)	(430)	–	(2,593)	(86)	(4,876)
Net carrying value as of January 1, 2012	2,060	1,184	4,132	1,025	1,616	104	10,121
Additions and transfers	22	–	36	–	482	–	539
Divestments and transfers	(1)	–	(137)	–	(4)	–	(143)
Amortization	–	(205)	(213)	–	(392)	(13)	(822)
Amortization charged to other comprehensive income	–	(149)	–	–	–	–	(149)
Impairments	–	–	–	–	(51)	(1)	(52)
Foreign currency translation effects	27	13	(3)	–	19	3	59
Net carrying value as of December 31, 2012	**2,107**	**844**	**3,815**	**1,025**	**1,670**	**94**	**9,555**
Plus: accumulated amortization/impairments	132	2,047	620	–	2,747	125	5,671
Gross carrying value as of December 31, 2012	**2,239**	**2,890**	**4,435**	**1,025**	**4,418**	**219**	**15,226**

As of December 31, 2012, intangible assets relating to non-controlling interests were USD 201 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,789 million for distribution agreements and USD 11 million for software.

Additions to goodwill of USD 14 million relates to the acquisition of ZIMB in 2011, resulting from an increase in the anticipated purchase price adjustment and finalization of the purchase accounting (see note 5) and an increase of USD 8 million relating to the increase of an earn out liability in Brazil.

New distribution agreements in General Insurance operations in Brazil, to gain access to the mass consumer market, and in Global Life operations in the Middle East, resulted in additions of USD 36 million.

The loss of control over one of the Group's subsidiaries resulted in the derecognition of the related assets and liabilities, including a goodwill asset of USD 1 million and USD 137 million of distribution agreements (see note 5).

Intangible assets by segment – current period

Table 17.2

in USD millions, as of December 31, 2012	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	852	–	713	–	586	76	2,227
Global Life	435	844	3,102	–	403	17	4,801
Farmers	819	–	–	1,025	382	–	2,226
Other Operating Businesses	–	–	–	–	300	–	300
Non-Core Businesses	–	–	–	–	1	–	1
Net carrying value as of December 31, 2012	**2,107**	**844**	**3,815**	**1,025**	**1,670**	**94**	**9,555**

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, 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	332	2,082	–	560	1	3,026
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)	(23)	(103)	–	(15)	(2)	(228)
Net carrying value as of December 31, 2011	**2,060**	**1,184**	**4,132**	**1,025**	**1,616**	**104**	**10,121**
Plus: accumulated amortization/impairments	126	1,640	430	–	2,593	86	4,876
Gross carrying value as of December 31, 2011	**2,186**	**2,824**	**4,562**	**1,025**	**4,210**	**190**	**14,997**

[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 classification as held for sale of the Group’s operation in Bolivia.

As of December 31, 2011, intangible assets related to non-controlling interests were USD 277 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,950 million for distribution agreements and USD 5 million for software.

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.

A long term strategic arrangement over a 25 year period with Banco Santander S.A. in Latin America significantly expanded the Group’s presence in this emerging market and resulted in new distribution agreements totalling USD 2,007 million within both the Global Life and General Insurance operations in Mexico, Brazil, Chile and Argentina. This transaction also resulted in additions to PVFP amounting to USD 309 million in Mexico, Brazil and Chile. In addition, the acquisition of ZIMB resulted in an addition to PVFP amounting to USD 24 million (see note 5).

Extensions of existing distribution agreements also resulted in net additions of USD 28 million in the Global Life insurance operations in Italy, USD 14 million in the General Insurance operations in Turkey and USD 5 million in the Global 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, resulting in USD 85 million charge for software which will no longer be used.

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Table 17.4

Intangible assets by segment – prior period

in USD millions, as of December 31, 2011	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	827	–	853	–	548	83	2,311
Global Life	413	1,184	3,279	–	372	21	5,269
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**	**1,184**	**4,132**	**1,025**	**1,616**	**104**	**10,121**

18. Receivables and other assets

Receivables and other assets

Table 18

in USD millions, as of December 31	2012	2011
Financial assets		
Derivative assets	1,813	2,126
Receivables from policyholders	3,514	3,365
Receivables from insurance companies, agents and intermediaries	5,884	5,539
Receivables arising from ceded reinsurance	1,117	1,187
Reverse repurchase agreements	988	814
Amounts due from investment brokers	493	321
Other receivables	1,973	2,032
Allowance for impairments[1]	(327)	(320)
Other assets	135	134
Non-financial assets		
Current tax receivables	1,198	825
Accrued premiums	688	684
Prepaid expenses	275	286
Prepaid insurance benefits	333	432
Other assets	340	404
Total receivables and other assets	**18,423**	**17,828**

[1] Allowance for impairments includes USD 79 million and USD 81 million as of December 31, 2012 and 2011, respectively, for receivables arising from ceded reinsurance.

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	2012	2011
Other financial liabilities		
Derivative liabilities	542	700
Amounts due to policyholders	761	645
Amounts due to insurance companies, agents & intermediaries	1,360	1,388
Amounts due to reinsurers	1,398	1,117
Liabilities for cash collateral received for securities lending	330	159
Amounts due to investment brokers	1,334	1,406
Deposits from banking activities	672	815
Liabilities for defined benefit plans	3,417	2,905
Other liabilities for employee benefit plans	108	109
Other liabilities	5,214	6,543
Other non-financial liabilities		
Current tax payables	1,101	947
Restructuring provisions	297	254
Premium prepayments and other advances	916	891
Other liabilities	684	1,259
Total other liabilities	**18,135**	**19,137**

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Table 19.2 shows the maturity schedule of other financial liabilities as of December 31, 2012 and 2011, respectively.

Table 19.2

Maturity schedule – other financial liabilities[1]

in USD millions, as of December 31	2012		2011	
	Carrying value[2]	Undiscounted cash flows[3]	Carrying value[2]	Undiscounted cash flows[3]
< 1 year	10,227	10,213	11,136	11,128
1 to 2 years	119	92	376	387
2 to 3 years	140	121	116	118
3 to 4 years	157	155	183	196
4 to 5 years	98	118	114	115
> 5 years	979	1,442	956	1,164
Total	**11,719**	**12,142**	**12,881**	**13,109**

[1] Excluding liabilities for defined benefit plans.
[2] Allocation to the time bands is based on the expected maturity date.
[3] Based on the earliest contractual maturity.

Table 19.3

Restructuring provisions

in USD millions	2012	2011
As of January 1	254	155
Provisions made during the period	174	179
Increase of provisions set up in prior years	43	45
Provisions used during the period	(170)	(112)
Provisions reversed during the period	(6)	(2)
Foreign currency translation effects	5	(11)
As of December 31	**297**	**254**

During the year ended December 31, 2012, restructuring programs primarily impacted several European countries within the General Insurance and Global Life operations with estimated costs of USD 174 million for restructuring programs announced in the current year and USD 43 million for increases of provisions for restructuring which had been initiated in prior years. In addition, software impairments amounting to USD 11 million were made as part of the restructuring decisions of Global Life operations.

During the year ended December 31, 2011, the Group initiated several restructuring programs, recording a total charge to income of USD 179 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.

20. Income taxes

Income tax expense – current/deferred split

Table 20.1 in USD millions, for the years ended December 31	2012	2011
Current	1,033	1,099
Deferred	463	(136)
Total income tax expense	**1,496**	**963**

Income tax expense – policyholder/shareholder attribution

Table 20.2 in USD millions, for the years ended December 31	2012	2011
Total income tax expense/(benefit) attributable to policyholders	194	(242)
Total income tax expense attributable to shareholders	1,301	1,204
Total income tax expense	**1,496**	**963**

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	2012	Rate	2011
Net income before income taxes		5,462		4,738
less: income tax (expense)/benefit attributable to policyholders		(194)		242
Net income before income taxes attributable to shareholders		5,268		4,979
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,159	22.0%	1,095
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*239*		260
Tax exempt and lower taxed income		*(133)*		(82)
Non-deductible expenses		*85*		75
Tax losses previously unrecognized or no longer recognized		*(12)*		5
Prior year adjustments and other		*(37)*		(149)
Actual income tax expense attributable to shareholders	24.7%	1,301	24.2%	1,204
plus: income tax expense/(benefit) attributable to policyholders		194		(242)
Actual income tax expense	**27.4%**	**1,496**	**20.3%**	**963**

Table 20.3 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	2012	2011
Current tax receivables	1,198	825
Current tax payables	(1,101)	(947)
Net current tax receivables/(payables)	**96**	**(122)**

Deferred tax assets and liabilities

Table 20.5

in USD millions, as of December 31	2012	2011
Deferred tax assets	1,854	2,076
Deferred tax liabilities	(5,238)	(4,569)
Net deferred tax liabilities	**(3,384)**	**(2,493)**

Development of net deferred tax liabilities

Table 20.6

in USD millions	2012	2011
As of January 1	(2,493)	(2,415)
Net change recognized in the income statement	(463)	136
Net change recognized in equity	(409)	376
Net changes due to acquisitions/(divestments)	44	(618)
Foreign currency translation effects	(63)	28
As of December 31	**(3,384)**	**(2,493)**

As of December 31, 2012 and 2011, respectively, USD 6 million was debited and USD 404 million was credited as deferred tax to shareholders' equity, net of foreign currency translation effects.

The net deferred tax liabilities related to non-controlling interests amounted to USD 577 million and USD 614 million as of December 31, 2012 and 2011, respectively.

Deferred taxes – policyholder/shareholder attribution

Table 20.7

in USD millions, as of December 31	2012	2011
Net deferred tax liabilities attributable to policyholders	(321)	(154)
Net deferred tax liabilities attributable to shareholders	(3,063)	(2,339)
Net deferred tax liabilities	**(3,384)**	**(2,493)**

Deferred tax assets/(liabilities) analysis by source

Table 20.8

in USD millions, as of December 31	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	35	(677)	24	(655)
Depreciable and amortizable assets	45	(63)	30	(73)
Life policyholders' benefits and deposits[1]	13	(15)	96	(49)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	251	(511)	410	(522)
Accruals and deferred income	158	(1)	191	(2)
Reserves for losses and loss adjustment expenses	434	(132)	457	(4)
Reserves for unearned premiums	765	(59)	729	(61)
Pensions and other employee benefits	544	–	541	–
Other assets/liabilities	785	(89)	756	(296)
Tax loss carryforwards	484	–	617	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,514	(1,549)	3,851	(1,662)
Valuation allowance	(112)	–	(113)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,403	(1,549)	3,738	(1,662)
Deferred tax assets	**1,854**		**2,076**	
Deferred acquisition and origination costs	89	(2,662)	60	(2,565)
Depreciable and amortizable assets	247	(2,585)	287	(2,620)
Life policyholders' benefits and deposits[1]	1,162	(961)	956	(777)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	209	(1,364)	303	(1,075)
Accruals and deferred income	116	(94)	109	(169)
Reserves for losses and loss adjustment expenses	149	(82)	142	(243)
Reserves for unearned premiums	50	(72)	47	(64)
Deferred front-end fees	616	–	634	–
Pensions and other employee benefits	482	(40)	457	(37)
Other assets/liabilities	744	(1,357)	923	(1,128)
Tax loss carryforwards	127	–	203	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,992	(9,218)	4,121	(8,678)
Valuation allowance	(12)	–	(12)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,980	(9,218)	4,109	(8,678)
Deferred tax liabilities		**(5,238)**		**(4,569)**
Net deferred tax liabilities		**(3,384)**		**(2,493)**

[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 table 20.8 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, 2012 and 2011, 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 22 billion and USD 21 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	2012	2011
For which deferred tax assets have been recognized, expiring		
< 5 years	105	170
5 to 20 years	622	1,208
> 20 years or with no time limitation	1,002	1,010
Subtotal	1,729	2,388
For which deferred tax assets have not been recognized, expiring		
5 to 20 years	102	169
> 20 years or with no time limitation	629	598
Subtotal	731	767
Total	**2,460**	**3,155**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 18.6 percent and 20.6 percent for the years 2012 and 2011, 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, 2012, are recoverable.

21. Senior and subordinated debt

Senior and subordinated debt

Table 21.1

in USD millions, as of December 31		2012	2011
Senior debt			
Zurich Insurance Company Ltd	3.75% CHF 500 million notes, due September 2013[6]	545	531
	2.25% CHF 500 million notes, due July 2017[6]	543	529
	2.875% CHF 250 million notes, due July 2021[6]	269	262
	2.375% CHF 525 million notes, due November 2018[6]	568	553
	1.50% CHF 400 million notes, due June 2019[5,6,7]	440	–
	3.375% EUR 500 million notes, due June 2022[5,6,7]	682	–
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million notes, due September 2013[5,6,7]	757	764
Zurich Finance (USA), Inc.	4.50% EUR 1 billion notes, due September 2014[2,6,7]	1,333	1,312
	4.875% EUR 800 million notes, due April 2012[1,6]	–	1,037
	6.50% EUR 600 million notes, due October 2015[3,6,7]	790	776
	Euro Commercial Paper Notes	400	400
Zurich Santander Insurance America S.L.	7.5% EUR 167 million loan, due December 2035	220	236
Other	Various debt instruments payable in more than 1 year	113	141
Senior debt		6,660	6,541
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes[6]	188	184
	7.5% EUR 425 million notes, due July 2039[6]	557	547
	4.25% CHF 700 million perpetual notes[6]	756	735
	4.625% CHF 500 million perpetual notes[6]	539	525
	8.25% USD 500 million perpetual capital notes[6]	495	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes[4,6]	723	690
Zurich Finance (USA), Inc.	5.75% EUR 500 million notes, due October 2023[1,6]	652	641
	4.5% EUR 500 million notes, due June 2025[5,6,7]	705	688
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065	676	674
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 million Trust Preferred Securities, due May 2062	–	250
ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067	498	497
Other	Various debt instruments payable in more than 1 year	73	44
Subordinated debt		5,861	5,476
Total senior and subordinated debt		**12,521**	**12,017**

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 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 in table 21.1 were in default as of December 31, 2012 or 2011.

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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.

i) Senior debt

Senior debt amounted to USD 6,660 million and USD 6,541 million as of December 31, 2012 and December 31, 2011, respectively.

The increase was primarily due to the issuance of two notes: in June 2012 under its EMTN Programme, Zurich Insurance Company Ltd issued a 1.5% CHF 400 million senior note and a 3.375% EUR 500 million senior note. This was partially offset by the redemption of a 4.875% EUR 800 million senior note issued in 2009 by Zurich Finance (USA) which matured in April 2012 and the translation effects of the U.S. dollar against the currencies in which the notes were issued.

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 amounted to USD 5,861 million and USD 5,476 million as of December 31, 2012 and December 31, 2011, respectively.

The increase is mainly the result of 8.25% USD 500 million perpetual capital notes issued in January 2012 by Zurich Insurance Company Ltd under its EMTN Programme and the translation effects of the U.S. dollar against the currencies in which the notes were issued. This was partially offset by the early redemption of the remaining USD 250 million of 5.875% USD 500 million Series IV Fixed/Floating Trust Preferred Securities issued by ZFS Finance (USA) Trust IV in 2007, which were called in June 2012.

Operational and financial debt

Table 21.2

Indebtedness

in USD millions, as of December 31	Collateralized loans		Senior debt		Subordinated debt		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Operational debt	–	223	829[1, 2]	864[1, 2]	28[2]	–	857	1,086
Financial debt	–	–	5,831	5,678	5,833	5,476	11,664	11,153
Total	**–**	**223**	**6,660**	**6,541**	**5,861**	**5,476**	**12,521**	**12,240**

[1] 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.
[2] Operational senior and subordinated debt include an adjustment of USD 100 million for non-recourse debt.

Total operational and financial debt increased by USD 281 million to USD 12.5 billion.

The net increase resulted from the issue of a number of debt instruments during 2012, which were used to re-finance matured debt and early and partial redemptions of debt, as well as for general corporate purposes, partially offset by the repayment of collateralized loans in operational debt. A further increase was due to the translation effects of the U.S. dollar against the currencies in which the notes were issued.

Table 21.3

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.
8.25% USD 500 million, perpetual capital notes	8.25% per annum payable quarterly until January 18, 2018. Resets to the 6-Year USD mid swap rate plus 6.84% until January 18, 2024. Resets thereafter every 6 years to the 6-Year USD mid swap rate plus 7.84%.	Quarterly on or after January 18, 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 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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Table 21.4

Maturity schedule of outstanding debt

in USD millions, as of December 31	2012		2011	
	Carrying value	**Undiscounted cash flows**	Carrying value	Undiscounted cash flows
< 1 year	1,702	2,299	1,437	2,032
1 to 2 years	1,356	1,907	1,305	1,823
2 to 3 years	902	1,371	1,324	1,811
3 to 4 years	–	429	917	1,319
4 to 5 years	543	934	–	376
5 to 10 years	2,705	4,340	1,345	2,838
> 10 years	5,313	7,418	5,689	7,625
Total	**12,521**	**18,698**	**12,017**	**17,825**

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/redemption dates, see table 21.3. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 21.4. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2012 and December 31, 2011. All debt is assumed to mature within 20 years of the balance sheet date without refinancing. Floating interest rates are assumed to remain constant as of December 31, 2012 and December 31, 2011. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Table 21.5

Interest expense on debt

in USD millions, for the years ended December 31	**2012**	2011
Senior debt	221	263
Subordinated debt	348	324
Total	**570**	**586**

Interest expense on debt amounted to USD 570 million and USD 586 as of December 31, 2012 and 2011, respectively. The lower interest expense on senior debt was mainly due to the maturity of the 4.875% EUR 800 million notes in April 2012 as well as the positive impact of refinancing the 3.875% CHF 1 billion notes in July 2011 and the 3.5% CHF 300 million notes in November 2011 at lower rates. This reduction was partially offset by the 7.5% EUR 167 million senior loan to support the Group's business in Latin America and the issuance of two new senior notes under the EMTN Programme in June 2012. By contrast interest expense on subordinated debt increased mainly as a result of the issuance of two new subordinated notes in March 2011 and January 2012, partially offset by the early redemption in June 2012 of the remaining USD 250 million of 5.875% USD 500 million Series IV Fixed/Floating Trust Preferred Securities.

Credit facilities

On December 4, 2012 the Group amended the revolving credit facility agreement dated October 31, 2011 and redenominated the total amount of EUR 2.5 billion maturing in 2018 at the latest into USD 3.2 billion. Farmers Group, Inc. and its subsidiaries ceased to be a borrower and a guarantor under the facility and Zurich Insurance Company Ltd assumed this additional borrowing capacity and became the exclusive guarantor of the total amount of USD 3.2 billion.

In addition, the Group has access to four other revolving credit facilities totaling USD 441 million, of which USD 336 million are expiring in 2014 and USD 75 million in 2015. No borrowings were outstanding under any of these facilities as of December 31, 2012 or December 31, 2011.

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, 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
New shares issued from contingent capital in 2012	91,430	914,301	0.10
As of December 31, 2012	14,830,012	148,300,123	0.10
Authorized, contingent and issued share capital			
As of December 31, 2011	17,129,526	171,295,259	0.10
As of December 31, 2012	17,129,526	171,295,259	0.10

a) Issued share capital

The issued share capital of Zurich Insurance Group Ltd as of December 31, 2012 amounts to CHF 14,830,012.30 divided into 148,300,123 fully paid registered shares with a nominal value of CHF 0.10 each.

b) Authorized share capital

Until March 29, 2014, the Board of Directors of Zurich Insurance Group 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 of Directors 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 of Directors 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 of Directors 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 of Directors 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 Insurance Group 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 Insurance Group 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 of Directors.

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 of Directors, 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 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 Insurance Group Ltd, the quoted share price is to be used as a basis.

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Employee participation

During 2012 and 2011, 914,301 shares and 798,926 shares, respectively, were issued to employees from contingent share capital under the program described above. As a result, on December 31, 2012 and 2011, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 299,514 and CHF 390,944 or 2,995,136 and 3,909,437 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) 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.

e) Treasury shares

Table 22.2

Treasury shares

number of shares, as of December 31	**2012**	2011
Treasury shares	1,348,395	1,373,392

Treasury shares comprise shares acquired in the market, primarily held to cover employee share and share option plans.

f) Earnings per share

Table 22.3

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]**
2012				
Basic earnings per share	**3,878**	**146,641,273**	**26.44**	**24.79**
Effect of potentially dilutive shares related to share-based compensation plans		739,870	(0.13)	(0.13)
Diluted earnings per share	**3,878**	**147,381,143**	**26.31**	**24.66**
2011				
Basic earnings per share	**3,746**	**145,790,012**	**25.70**	**22.69**
Effect of potentially dilutive shares related to share-based compensation plans		1,103,836	(0.19)	(0.17)
Diluted earnings per share	**3,746**	**146,893,848**	**25.50**	**22.52**

[1] Excludes the net income attributable to preferred shareholders of USD 4 million for the year ended December 31, 2011.
[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, 2012 and 2011, 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.

23. Employee benefits

The Group had 52,722 and 52,648 employees (full-time equivalents) as of December 31, 2012 and 2011, respectively. Personnel and other related costs incurred for the year ended December 31, 2012 and 2011, were USD 6,109 million and USD 5,890 million, including wages and salaries of USD 4,861 million and USD 4,885 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 consolidated balance sheets.

For the defined benefit pension plans, total contributions to funded pension plans and benefit payments by the Group are currently estimated at USD 488 million for 2013 compared with USD 479 million estimated in the previous year for 2012. 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.

Tables 23.1, 23.2 and 23.3 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.

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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				
	2012	2011	2010	2009	2008	**2012**	2011	2010	2009	2008
Present value of funded obligations	(19,043)	(17,189)	(14,978)	(13,966)	(12,680)	(2)	(1)	–	(70)	(93)
Fair value of plan assets	16,268	14,902	13,791	12,622	10,879	–	–	–	–	–
Funded status	(2,775)	(2,287)	(1,186)	(1,344)	(1,801)	(2)	(1)	–	(70)	(92)
Unrecognized past service cost	–	(1)	(1)	–	(1)	–	–	–	–	–
Cumulative impact of asset ceiling	–	(3)	(3)	(15)	(7)	–	–	–	–	–
Liability – funded obligations	**(2,775)**	**(2,291)**	**(1,190)**	**(1,359)**	**(1,808)**	**(2)**	**(1)**	**–**	**(70)**	**(92)**

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				
	2012	2011	2010	2009	2008	**2012**	2011	2010	2009	2008
Present value of unfunded obligations	(307)	(289)	(260)	(230)	(210)	(315)	(301)	(295)	(205)	(183)
Unrecognized past service cost	(4)	(5)	(10)	–	–	(14)	(18)	(23)	(28)	(1)
Liability – unfunded obligations	**(311)**	**(293)**	**(270)**	**(229)**	**(209)**	**(329)**	**(319)**	**(318)**	**(234)**	**(184)**

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				
	2012	2011	2010	2009	2008	**2012**	2011	2010	2009	2008
Liability	**(3,086)**	**(2,585)**	**(1,460)**	**(1,588)**	**(2,017)**	**(331)**	**(320)**	**(319)**	**(303)**	**(277)**

Expense recognized in income

Table 23.4

in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2012	2011	**2012**	2011
Current service cost	(332)	(314)	(10)	(10)
Interest cost	(740)	(745)	(13)	(13)
Expected return on plan assets	608	756	–	–
Past service cost	(11)	(6)	5	5
Gains on curtailment or settlement	43	2	–	12
Net pension expense	**(432)**	**(307)**	**(18)**	**(7)**

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	
	2012	2011
Mortgage loans	444	465
Cash and cash equivalents	182	193
Equity securities	3,696	3,233
Debt securities	11,002	10,151
Real estate	938	854
Other assets[1]	7	7
Total	**16,268**	**14,902**

[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	
	2012	2011	**2012**	2011
Benefit obligation as of January 1	(17,478)	(15,238)	(302)	(296)
Current service cost	(332)	(314)	(10)	(10)
Past service cost including plan amendments	(11)	(10)	–	–
Interest cost	(740)	(745)	(13)	(13)
Actuarial gain/(loss) included in other comprehensive income	(1,083)	(1,894)	(3)	(4)
Employee contributions	(51)	(52)	–	(6)
Employer contributions paid directly to meet benefits	30	–	21	–
Benefits paid	628	612	–	20
Effect of curtailments or settlements	254	2	–	12
Foreign currency translation effects	(566)	162	(9)	(5)
Benefit obligation as of December 31	**(19,350)**	**(17,478)**	**(318)**	**(302)**

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Table 23.7

Movement in fair value of plan assets – funded plans

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2012	2011	**2012**	2011
Fair value of plan assets as of January 1	14,902	13,791	–	–
Expected return on plan assets	608	756	–	–
Actuarial gain/(loss) included in other comprehensive income	611	560	–	–
Employer contributions	452	459	–	14
Employee contributions	51	52	–	6
Benefits paid	(628)	(612)	–	(20)
Effect of curtailments or settlements	(211)	–	–	–
Foreign currency translation effects	483	(105)	–	–
Fair value of plan assets as of December 31	**16,268**	**14,902**	**–**	**–**

The actual returns on defined benefit pension plan assets for the years ended December 31, 2012 and 2011 were gains of USD 1,219 million and USD 1,316 million, respectively.

The summary of the balance sheet changes in relation to defined benefit plans and other defined post-employment benefits is shown in table 23.8.

Table 23.8

Movement in liability for funded and unfunded plans

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2012	2011	**2012**	2011
Liability as of January 1	(2,585)	(1,460)	(320)	(319)
Current year expense	(432)	(307)	(18)	(7)
Contributions paid	452	459	–	14
Contributions paid directly to meet benefits	30	–	21	–
Change in liability due to asset ceiling	3	–	–	–
Actuarial gain/(loss) included in other comprehensive income	(473)	(1,333)	(3)	(4)
Foreign currency translation effects	(82)	58	(9)	(5)
Liability as of December 31	**(3,086)**	**(2,585)**	**(331)**	**(320)**

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 in table 23.9.

Actuarial gain/(loss)

Table 23.9

in USD millions	**2012**	2011	2010	2009	2008
Actuarial gain/(loss) as of January 1	(4,200)	(2,914)	(2,672)	(2,907)	(1,308)
Experience adjustments on plan liabilities	(212)	(190)	205	(37)	(147)
Experience adjustments on plan assets	611	560	388	318	(1,485)
Changes due to discount rate assumptions	(1,452)	(1,602)	(742)	(103)	223
Changes due to other actuarial assumptions	577	(105)	(65)	144	(392)
Asset ceiling recognition	3	–	11	(7)	51
Foreign currency translation effects	(108)	51	(39)	(80)	152
Total actuarial gain/(loss) as of December 31	**(4,781)**	**(4,200)**	**(2,914)**	**(2,672)**	**(2,907)**
Total actuarial gain/(loss) net of policyholder participation and taxes as of December 31	**(3,308)**	**(2,857)**	**(1,924)**	**(1,762)**	**(1,934)**

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 in table 23.10.

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

Table 23.10

as of December 31	**2012**				2011			
	Switzerland	**United Kingdom**	**United States**	**Germany**	Switzerland	United Kingdom	United States	Germany
Discount rate	1.7%	4.7%	3.9%	3.3%	2.1%	5.0%	4.5%	5.4%
Inflation rate	1.5%	3.3%	2.9%	2.3%	1.6%	3.7%	2.2%	1.8%
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	2.1%	3.8%	4.4%	3.6%	2.2%	4.2%	4.3%	3.1%
Expected future pension increases	1.0%	3.3%	0.0%	2.3%	1.1%	3.7%	0.0%	1.8%
Current average life expectancy for a 65 year old male	21.2	22.9	19.5	18.6	21.1	22.9	19.6	18.4

The expected long-term rate of return on assets was 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.

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

Table 23.11

as of December 31	2012	2011
	U.S.	U.S.
Discount rate	3.7%	5.0%
Expected increase in long-term health cost – initial rate	7.9%	7.7%
Expected increase in long-term health cost – ultimate rate	4.9%	4.8%

The actuarial assumptions for healthcare cost trend rates have an impact on the amounts recognized. A one percentage point change in the health care cost trend rates would have the effect on amounts recognized as set out in table 23.12.

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

Table 23.12

in USD millions, as of December 31	1% increase	1% decrease
Effect on total service cost and interest cost	–[1]	–[1]
Effect on benefit obligation	4	(3)

[1] Below USD 1 million.

b) Defined contribution pension plans

Certain of the Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either based on completion of a specified period of continuous service or the date of commencement of employment. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 10 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 132 million and USD 127 million in 2012 and 2011, respectively.

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 Insurance Group 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 490 million and USD 487 million for the years ended December 31, 2012 and 2011, respectively.

b) Share-based compensation plans for employees and executives

The Group encourages employees to own shares in Zurich Insurance Group Ltd and has set up a framework based on the implementation of either share options and/or performance share programs. Actual plans are tailored to meet local market requirements.

Expenses recognized in income

Table 24.1

in USD millions, as of December 31	2012	2011
Total option-based expenses	14	35
Total share-based expenses	126	141
Total expenses	**140**	**176**

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 Insurance Group Ltd shares at the prevailing market price out of their gross earnings. There were 181 and 252 participants in the plan as of December 31, 2012 and 2011, 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, 2012 and 2011 was 5,289 and 4,463 respectively.

Share Incentive Plan 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 2012, 4,894 employees were eligible to participate in the share incentive plan for employees in Switzerland compared with 5,448 in 2011. For the years ended December 31, 2012 and 2011, 1,385 and 1,084 employees, respectively, purchased shares under the 2011 and 2010 share plan.

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The Group Long-Term Incentive Plan
Participants in this plan are granted a target number of performance shares in shares of Zurich Insurance Group 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, 2012 and 2011 there were 1,129 and 1,152 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 Insurance Group 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 period up to seven years from the date of grant.

c) Further information on performance share and option plans

Table 24.2

Movements in options under the Group Long-Term Incentive Plan

	Number of shares under option		Weighted average exercise price (in CHF)	
	2012	2011	**2012**	2011
As of January 1	3,268,779	3,693,558	285	281
Options vesting	444,277	828,407	240	261
Options forfeited	(33,940)	(142,385)	258	248
Options exercised	(408,159)	(304,080)	202	206
Options expired during period	(766,373)	(806,721)	273	276
As of December 31	**2,504,584**	**3,268,779**	**295**	**285**
Exercisable options as of December 31	2,261,239	2,587,617	295	285

The average share price for Zurich Insurance Group Ltd shares in 2012 and 2011 was CHF 221.56 and CHF 212.72 respectively.

Table 24.3

Share options exercised during the period

	Amount		Weighted average share price (in CHF)	
	2012	2011	**2012**	2011
Exercise date				
January to April	296,042	255,232	235	260
May to August	33,289	26,388	222	229
September to December	78,828	22,460	238	208
Total	**408,159**	304,080	**232**	232

Range of exercise prices for options outstanding

Table 24.4

in CHF, as of December 31	Number of options		Weighted average contractual life in years		Weighted average remaining expected life in years	
	2012	2011	**2012**	2011	**2012**	2011
Exercise price						
100 to 200	255,683	478,212	7.0	7.0	3.3	4.3
201 to 300	876,150	1,161,398	7.0	7.0	4.3	4.5
301 to 400	1,372,751	1,629,169	7.0	7.1	1.3	2.3
Total	**2,504,584**	3,268,779	**7.0**	7.0	**2.6**	3.4

Options and shares during the period

Table 24.5

for the years ended December 31	Number		Weighted average fair value at grant date (in CHF)	
	2012	2011	**2012**	2011
Shares granted during the period	549,831	537,955	226	244
Options granted during the period[1]	–	–	–	–

[1] Number of options granted for closed plans.

The shares granted during the year are the target allocations made under the Group's Long-Term Incentive Plan. Whether these grants vest or not will depend on whether the performance metrics are achieved. If the performance metrics change from the initial assumptions, the expense is adjusted.

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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	**2012**	2011
Commitments under investment agreements	4,225	4,037
Less funded commitments	(3,690)	(3,586)
Remaining commitments under investment agreements	535	451
Guarantees and letters of credit[1]	10,565	10,387
Future operating lease commitments	1,085	1,169
Undrawn loan commitments	20	57
Other commitments and contingent liabilities	41	7

[1] Guarantee features embedded in life insurance products are not included.

Commitments under investment agreements

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis.

Guarantees and letters of credit

USD 9,104 million of the USD 10,565 million and USD 8,691 million of the USD 10,387 million for financial guarantees and letters of credit as of December 31, 2012 and 2011, respectively, 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 2012 and 2011, an additional USD 773 million and USD 738 million, respectively, relate to guarantees in the aggregate amount of GBP 475 million which were 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. The design of such funds varies from jurisdiction to jurisdiction. In some, funding is based on premiums written, in others the Group may be called upon to contribute to such funds in case of a failure of another market participant. In addition, in some jurisdictions the amount of contribution may be limited, for example, to a percentage of the net underwriting reserve net of payments already made.

The Group carries certain contingencies in the ordinary course of business in connection with the sale of its companies and businesses. These are primarily in the form of indemnification obligations provided to the acquirer in a transaction in which a Group company is the seller. They vary in scope and duration by counterparty and generally are intended to 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 102 million and USD 141 million for the years ended December 31, 2012 and 2011, respectively.

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

Table 25.2

in USD millions, as of December 31	2012	2011
< 1 year	205	192
1 to 2 years	187	192
2 to 3 years	174	168
3 to 4 years	155	154
4 to 5 years	110	142
> 5 years	254	322
Total	**1,085**	1,169

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, 2012 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, 2012 and 2011 is estimated to amount to approximately USD 71 million and USD 131 million, respectively.

In common with other groups writing life insurance 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 expected to be successful (the uphold rate), the average redress payable for each complaint and the expenses of reviewing each case or complaint. The assumptions used to set the provisions have been based on actual recent experience.

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 9,445 million and USD 8,147 million as of December 31, 2012 and 2011, 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 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, inter alia, fraudulent transfer, tortious interference, unfair business practices, alter ego and agency liability 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

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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. Closing arguments were heard on February 22 and 23, 2012, and a decision is pending. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously.

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

Tables 26.1a and 26.1b 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	
	2012	2011	**2012**	2011
Cash and cash equivalents	9,098	8,882	9,098	8,882
Available-for-sale securities				
Debt securities	141,597	130,196	141,597	130,196
Equity securities	8,796	8,207	8,796	8,207
Total available-for-sale securities	150,392	138,402	150,392	138,402
Securities at FV through profit or loss				
Trading				
Debt securities	48	42	48	42
Equity securities	410	438	410	438
Designated at FV				
Debt securities	8,937	8,738	8,937	8,738
Equity securities	3,135	4,006	3,135	4,006
Total securities at FV through profit or loss	12,530	13,224	12,530	13,224
Derivative assets	1,750	2,060	1,750	2,060
Held-to-maturity debt securities	5,723	6,182	5,012	5,535
Investments in associates and joint ventures	172	161	172	161
Loans and receivables				
Mortgage loans	11,298	11,607	10,519	11,058
Other loans	14,895	13,724	12,423	11,944
Deposits made under assumed reinsurance contracts	2,583	2,703	2,588	2,711
Mortgage loans given as collateral	–	223	–	223
Receivables	13,611	12,904	13,642	12,939
Total loans and receivables	42,387	41,161	39,172	38,874
Total financial assets	**222,053**	**210,072**	**218,127**	**207,138**
Derivative liabilities	(537)	(663)	(537)	(663)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(1,540)	(1,354)	(1,305)	(1,131)
Liabilities related to investment contracts with DPF	(5,663)	(5,337)	(5,903)	(5,607)
Senior debt	(7,180)	(6,789)	(6,660)	(6,541)
Subordinated debt	(6,379)	(5,153)	(5,861)	(5,476)
Deposits received under ceded reinsurance contracts	(1,482)	(1,477)	(1,558)	(1,560)
Collateralized loans	–	(223)	–	(223)
Other financial liabilities	(1,890)	(1,953)	(1,890)	(1,957)
Obligation to repurchase securities	(1,539)	(1,794)	(1,539)	(1,794)
Total financial liabilities	**(26,210)**	**(24,743)**	**(25,252)**	**(24,952)**

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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	
	2012	2011	**2012**	2011
Cash and cash equivalents	1,261	1,280	1,261	1,280
Investments at FV through profit or loss				
Designated at FV				
Debt securities	12,062	11,825	12,062	11,825
Equity securities	100,144	89,535	100,144	89,535
Other loans	8,279	7,739	8,279	7,739
Total investments at FV through profit or loss	120,484	109,099	120,484	109,099
Derivative assets	62	65	62	65
Total	**121,808**	**110,444**	**121,808**	**110,444**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	(50,923)	(44,220)	(50,923)	(44,220)
Derivative liabilities	(5)	(37)	(5)	(37)
Total	**(50,928)**	**(44,256)**	**(50,928)**	**(44,256)**

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 derivative financial instruments. 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.

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 derivative financial instruments. The effect of changes in the internal valuation inputs to reasonably possible alternative values is disclosed in tables 26.4a and 26.4b.

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

Fair value hierarchy – current period

Table 26.2a

in USD millions, as of December 31, 2012	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	44,796	94,064	2,736	141,597
Equity securities	3,526	4,331	939	8,796
Total available-for-sale securities	48,322	98,395	3,675	150,392
Securities at FV through profit or loss				
Trading				
Debt securities	43	5	–	48
Equity securities	–	43	367	410
Designated at FV				
Debt securities	2,737	6,110	90	8,937
Equity securities	383	1,493	1,260	3,135
Total securities at FV through profit or loss	3,163	7,650	1,716	12,530
Derivative assets	2	1,719	30	1,750
Total	**51,487**	**107,765**	**5,421**	**164,672**
Derivative liabilities	(3)	(533)	–	(537)
Total	**(3)**	**(533)**	**–**	**(537)**

Fair value hierarchy – prior period

Table 26.2b

in USD millions, as of December 31, 2011	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	40,046	87,888	2,261	130,196
Equity securities	3,346	3,884	977	8,207
Total available-for-sale securities	43,392	91,772	3,239	138,402
Securities at FV through profit or loss				
Trading				
Debt securities	35	7	–	42
Equity securities	–	40	398	438
Designated at FV				
Debt securities	3,155	5,394	189	8,738
Equity securities	483	2,258	1,265	4,006
Total securities at FV through profit or loss	3,673	7,699	1,851	13,224
Derivative assets	4	2,023	33	2,060
Total	**47,069**	**101,494**	**5,123**	**153,686**
Derivative liabilities	(8)	(603)	(52)	(663)
Total	**(8)**	**(603)**	**(52)**	**(663)**

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Table 26.3a

Development of financial instruments classified under level 3 – current period

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, 2012	2,261	977	398	189	1,265	33	(52)
Realized gains/(losses) recognized in income	37	31	8	8	10	–	–
Unrealized gains/(losses) recognized in income[1]	(11)	(4)	(7)	4	76	(5)	52
Unrealized gains/(losses) recognized in other comprehensive income	165	58	–	–	–	–	–
Purchases	680	86	29	14	155	–	–
Sales/redemptions/settlements	(1,084)	(212)	(67)	(100)	(245)	–	–
Transfers into Level 3	929	2	–	12	–	–	–
Transfers out of Level 3	(261)	(4)	–	(42)	–	–	–
Foreign currency translation effects	20	5	7	4	(1)	1	–
As of December 31, 2012	**2,736**	**939**	**367**	**90**	**1,260**	**30**	**–**

[1] Presented as impairments for available-for-sale securities, and net capital gains/(losses) and impairments for securities at fair value through profit and loss on Group investments in the consolidated income statements.

During the year ended December 31, 2012, the Group transferred USD 0.9 billion of debt securities from level 2 to level 3. The transfers were mainly the result of higher price volatility and credit rating downgrades of certain asset-backed securities, resulting in a deterioration of the market activity of the instruments.

Table 26.3b

Development of financial instruments classified under level 3 – prior period

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	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 impairments for available-for-sale securities, and net capital gains/(losses) and impairments for securities at fair value through profit and loss 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.

Sensitivity of fair values reported for level 3 instruments to changes in key assumptions

As of December 31, 2012 and 2011 under level 3, the Group classified asset-backed securities (ABSs) amounting to USD 2.8 billion and USD 2.5 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 these tables 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, 2012	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%	(95)	–20%	97
Prepayment rates	–20%	(7)	+20%	8
Recovery rates	–20%	(2)	+20%	2
Default rates	+20%	(10)	–20%	5

Table 26.4b

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

As of December 31, 2012 and 2011, under level 3 the Group also classified investments in hedge funds and private equity funds amounting to USD 2.0 billion and USD 1.9 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.

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Unit-linked financial instruments

Fair value hierarchy – current period

Table 26.5a

in USD millions, as of December 31, 2012	Level 1	Level 2	Level 3	Total
Investments at FV through profit or loss				
Designated at FV				
Debt securities	4,357	7,616	88	12,062
Equity securities	42,232	55,171	2,741	100,144
Other loans	–	8,279	–	8,279
Total investments at FV through profit or loss	46,589	71,066	2,829	120,484
Derivative assets	–	62	1	62
Total	**46,589**	**71,127**	**2,830**	**120,547**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	–	(50,923)	–	(50,923)
Derivative liabilities	–	(4)	(1)	(5)
Total	**–**	**(50,927)**	**(1)**	**(50,928)**

Fair value hierarchy – prior period

Table 26.5b

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	45,153	4,604	89,535
Other loans	–	7,739	–	7,739
Total investments at FV through profit or loss	44,981	59,385	4,733	109,099
Derivative assets	–	64	1	65
Total	**44,981**	**59,449**	**4,734**	**109,164**
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)**

Development of financial assets classified under level 3 – current period

Table 26.6a

in USD millions	Securities at FV through profit or loss	
	Designated at FV	
	Debt securities	Equity securities
As of January 1, 2012	129	4,604
Realized gains/(losses) recognized in income	1	402
Unrealized gains/(losses) recognized in income	6	(93)
Purchases	–	27
Sales/redemptions	(14)	(2,194)
Transfers into level 3	–	4
Transfers out of level 3	(38)	(11)
Foreign currency translation effects	5	2
As of December 31, 2012	**88**	**2,741**

Development of financial assets classified under level 3 – prior period

Table 26.6b

in USD millions	Securities at FV through profit or loss	
	Designated at FV	
	Debt securities	Equity securities
As of January 1, 2011	143	4,650
Realized gains/(losses) recognized in income	2	46
Unrealized gains/(losses) recognized in income	–	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**

Consolidated financial statements *continued*

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.

Table 27.1 sets out related party transactions with equity method accounted investments, reflected in the consolidated income statements and consolidated balance sheets.

Table 27.1

Related party transactions included in the Consolidated financial statements

in USD millions		
for the years ended December 31,	**2012**	2011
Net earned premiums and policy fees	13	28
Net investment result on Group investments	18	15
Insurance benefits and losses, net of reinsurance	(9)	(4)
Underwriting and policy acquisition costs, net of reinsurance	(1)	(2)
Administrative and other operating expense	(2)	(2)
as of December 31,	**2012**	2011
Other loans	18	21
Deposits made under assumed reinsurance contracts	4	5
Receivables and other assets	5	7
Reserves for insurance contracts	(11)	(11)
Other liabilities	(1)	(3)

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 Insurance Group 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	**2012**	2011
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	31	33
Post-employment benefits	3	3
Share-based compensation	14	19
Total remuneration of key personnel	**48**	55

As of December 31, 2012 and 2011 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 both the years ended December 31, 2012 and December 31, 2011. 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 figures in table 27.2 include the fees paid to members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd, which were USD 5 million for both the years ended December 31, 2012 and December 31, 2011.

No provision for non-repayment has been required in 2012 and 2011 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.

Consolidated financial statements *continued*

28. Farmers Exchanges

Farmers Group, Inc. and its subsidiaries (FGI) provide certain non-claims related management services to the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. a wholly owned subsidiary of the Group. The finances and operations of the Farmers Exchanges are governed by independent Boards of Governors. In addition, the Group has the following relationships with the Farmers Exchanges.

a) Certificates of contribution issued by the Farmers Exchanges

As of December 31, 2012 and 2011, FGI and other Group companies held the following 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	2012	2011
6.15% certificate of contribution, due June 2021	707	707
6.15% certificate of contribution, due June 2021	140	140
6.15% certificate of contribution, due June 2021	60	60
4.65% certificate of contribution, due December 2013	150	150
Various other certificates of contribution	23	23
Total	**1,080**	**1,080**

Conditions governing payment of interest and repayment of principal are outlined in the 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 can be cancelled after 90 days notice by any of the parties.

Effective January 1, 2012, the APD agreement was replaced with a new APD treaty with substantially the same terms as the prior agreement but with the ceding commission for acquisition expenses ranging between 27.1 percent and 29.1 percent and the ceding commission for unallocated loss adjustment expenses ranging between 8 percent and 10 percent, both based on a previous 5 year average experience. In addition, the experience commission was eliminated.

Farmers Exchanges' share of ceded premiums amounted to USD 1 billion for both the years ended December 31, 2012 and 2011. Ceded incurred losses and loss adjustment expenses totaled USD 723 million and USD 709 million for the years ended December 31, 2012 and 2011, respectively. Farmers Exchanges' share of the total commission income was USD 290 million and USD 268 million for the years ended December 31, 2012 and 2011, 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 12 percent as of December 31, 2010. 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. 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 26.7 percent, 9.0 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses. In addition, under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1.2 billion.

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. 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. 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.

Subject to the approval of the California Department of Insurance, effective December 31, 2012, the All Lines agreement was amended such that Farmers Re Co assume a 2.5 percent instead of 4 percent quota share and ZIC continues to assume a 16.0 percent 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. The remaining 1.5 percent quota share is assumed by a third party on the same terms as Farmers Re Co and ZIC. Unearned premiums totaling USD 102 million were transferred from Farmers Re Co to the Farmers Exchanges as a result of its decreased participation in the All Lines agreement effective December 31, 2012. In addition, the Farmers Exchanges remitted USD 27 million of reinsurance commissions to Farmers Re for acquisition expenses due to the decreased participation in the All Lines agreement.

Based on the results for 2012, ceded premiums earned and commissions were USD 3,418 million and USD 1,094 million, respectively, and recoveries totaled USD 2,475 million, for the year ended December 31, 2012.

Consolidated financial statements *continued*

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 all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of 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 and reinsurance 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 management of property loans and banking activities. Non-core businesses are mainly situated in the U.S., Bermuda, the United Kingdom and Ireland.

The Group also 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 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 property lending/banking operations included in Non-Core Businesses and investments in hedge funds, certain securities held for specific economic hedging purposes and policyholders' share of investment results for the life businesses), non-operational foreign exchange movements, and significant items arising from special circumstances, including restructuring charges, charges for litigation outside the ordinary course of business and gains and losses on divestments of businesses.

Consolidated financial statements *continued*

Business operating profit by business segment

Table 29.1

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2012	2011	**2012**	2011
Revenues				
Direct written premiums[1]	33,393	32,379	11,043	9,335
Assumed written premiums	2,217	2,193	102	97
Gross Written Premiums	35,610	34,572	11,145	9,432
Policy fees	–	–	2,445	2,152
Gross written premiums and policy fees	35,610	34,572	13,590	11,583
Less premiums ceded to reinsurers	(5,874)	(5,325)	(710)	(682)
Net written premiums and policy fees	29,736	29,247	12,880	10,901
Net change in reserves for unearned premiums	(540)	(171)	(259)	(36)
Net earned premiums and policy fees	29,195	29,076	12,621	10,865
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,587	2,807	4,833	4,575
Net investment income on Group investments	2,516	2,799	3,991	4,146
Net capital gains/(losses) and impairments on Group investments	71	8	842	429
Net investment result on unit-linked investments	–	–	9,703	(3,548)
Other income	992	922	1,047	1,012
Total BOP revenues	32,774	32,805	28,203	12,904
of which: inter-segment revenues	*(510)*	*(576)*	*(367)*	*(343)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	20,527	20,939	9,592	9,503
Losses and loss adjustment expenses, net	20,547	20,919	–	59
Life insurance death and other benefits, net[1]	(20)	20	9,592	9,444
Policyholder dividends and participation in profits, net	4	9	10,781	(2,826)
Income tax expense/(benefit) attributable to policyholders	–	–	194	(242)
Underwriting and policy acquisition costs, net	5,833	5,581	2,804	2,029
Administrative and other operating expense (excl. depreciation/amortization)	3,894	3,674	2,536	2,394
Interest credited to policyholders and other interest	18	24	403	395
Restructuring provisions and other items not included in BOP	(113)	(238)	(113)	(130)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	30,163	29,988	26,196	11,123
Business operating profit (before interest, depreciation and amortization)	**2,611**	**2,817**	**2,007**	**1,781**
Depreciation and impairments of property and equipment	110	85	32	30
Amortization and impairments of intangible assets	211	278	483	315
Interest expense on debt	141	209	22	56
Business operating profit before non-controlling interests	2,149	2,245	1,471	1,380
Non-controlling interests	52	(2)	132	26
Business operating profit	**2,097**	**2,247**	**1,338**	**1,353**

[1] The Global Life segment includes approximately USD 603 million and USD 936 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, 2012 and 2011, respectively (see note 3).

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
–	–	–	–	114	150	–	–	44,550	41,864
4,361	3,529	116	141	113	144	(175)	(220)	6,734	5,884
4,361	3,529	116	141	227	294	(175)	(220)	51,285	47,748
–	–	–	–	248	300	–	–	2,692	2,452
4,361	3,529	116	141	475	594	(175)	(220)	53,977	50,200
–	–	(50)	(59)	(21)	(704)	175	220	(6,481)	(6,550)
4,361	3,529	66	82	454	(110)	–	–	47,496	43,650
56	(545)	–	1	1	2	–	–	(741)	(751)
4,418	2,984	66	83	455	(108)	–	–	46,755	42,899
2,846	2,767	–	–	–	–	–	–	2,846	2,767
124	133	396	524	318	987	(658)	(847)	7,599	8,180
124	133	396	524	342	429	(658)	(847)	6,711	7,185
–	–	–	–	(24)	558	–	–	889	995
–	–	–	–	565	4	–	–	10,268	(3,544)
101	64	931	920	113	105	(1,515)	(1,534)	1,669	1,488
7,489	5,948	1,393	1,527	1,450	988	(2,173)	(2,381)	69,136	51,790
(69)	*(67)*	*(1,171)*	*(1,336)*	*(56)*	*(59)*	*2,173*	*2,381*	–	–
3,198	2,105	56	58	380	475	–	–	33,752	33,080
3,198	2,105	(1)	1	27	(622)	(3)	3	23,769	22,465
–	–	56	57	353	1,097	3	(3)	9,983	10,615
–	–	–	–	694	133	–	–	11,479	(2,685)
–	–	–	–	–	–	–	–	194	(242)
1,383	902	–	16	2	9	(9)	(20)	10,014	8,516
1,334	1,290	1,148	1,193	147	213	(1,483)	(1,490)	7,576	7,274
–	–	6	10	52	57	(3)	(7)	475	479
3	(10)	(24)	(107)	(1)	1	–	–	(248)	(483)
5,918	4,288	1,186	1,170	1,274	888	(1,495)	(1,517)	63,243	45,940
1,571	**1,660**	**207**	**357**	**175**	**100**	**(678)**	**(864)**	**5,892**	**5,851**
53	56	15	14	1	5	–	–	210	191
100	118	79	93	1	1	–	–	874	805
3	–	1,038	1,085	44	100	(678)	(864)	570	586
1,414	1,486	(925)	(835)	129	(7)	–	–	4,238	4,269
–	–	(22)	–	1	1	–	–	164	26
1,414	**1,486**	**(903)**	**(835)**	**128**	**(8)**	**–**	**–**	**4,075**	**4,243**

Consolidated financial statements *continued*

Table 29.2

Reconciliation of BOP to net income after income taxes

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2012	2011	**2012**	2011
Business operating profit	**2,097**	**2,247**	**1,338**	**1,353**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	1,051	526	352	407
Net gain/(loss) on divestments of businesses	(38)	(5)	3	16
Restructuring provisions	(114)	(145)	(83)	(69)
Net income/(expense) on intercompany loans[1]	(21)	(49)	(2)	(14)
Other adjustments	22	(45)[2]	(28)	(48)[3]
Add back:				
Business operating profit attributable to non-controlling interests	52	(2)	132	26
Net income before shareholders' taxes	**3,049**	**2,528**	**1,712**	**1,672**
Income tax expense/(benefit) attributable to policyholders	–	–	194	(242)
Net income before income taxes	**3,049**	**2,528**	**1,906**	**1,431**
Income tax expense				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

[1] The impact on Group level relates to foreign currency translation differences.
[2] Includes USD 85 million as of December 31, 2011 of software impairments related to a restructuring program impacting several European countries (see notes 17 and 19).
[3] Includes USD 67 million related to a voluntary settlement of an insurance liability in Italy.
[4] Includes USD 100 million charitable commitment to the Z Zurich Foundation.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	1,414	**1,486**	**(903)**	**(835)**	**128**	**(8)**	**4,075**	**4,243**
	18	(12)	(149)	230	41	37	1,312	1,187
	–	–	1	(5)	–	–	(34)	6
	(1)	(9)	(11)	–	(1)	–	(211)	(222)
	–	–	23	65	–	–	–	2
	5	(1)	(36)	(172)[4]	–	1	(38)	(263)
	–	–	(22)	–	1	1	164	26
	1,435	**1,464**	**(1,097)**	**(716)**	**169**	**31**	**5,268**	**4,979**
	–	–	–	–	–	–	194	(242)
	1,435	**1,464**	**(1,097)**	**(716)**	**169**	**31**	**5,462**	**4,738**
							(1,496)	(963)
							(194)	242
							(1,301)	(1,204)
							3,967	**3,775**
							89	25
							3,878	3,750

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	
	2012	2011	**2012**	2011
Assets				
Total Group Investments	89,557	84,514	113,305	104,643
Cash and cash equivalents	10,795	8,267	3,096	3,342
Equity securities	5,716	5,413	4,467	5,392
Debt securities	65,556	63,097	79,626	69,502
Real estate held for investment	2,827	2,911	5,334	5,130
Mortgage loans	1,460	1,472	7,934	8,177
Other loans	3,197	3,350	12,779	13,035
Investments in associates and joint ventures	7	6	69	65
Investments for unit-linked contracts	–	–	113,349	102,768
Total investments	89,557	84,514	226,653	207,411
Reinsurers' share of reserves for insurance contracts	13,901	13,660	1,983	2,079
Deposits made under assumed reinsurance contracts	46	71	29	19
Deferred policy acquisition costs	3,543	3,482	14,466	13,584
Deferred origination costs	–	–	770	824
Goodwill	852	827	435	413
Other intangible assets	1,375	1,484	4,366	4,856
Other assets[1]	15,642	14,934	6,669	7,167
Total assets (after cons. of investments in subsidiaries)	**124,916**	**118,972**	**255,372**	**236,354**
Liabilities				
Liabilities for investment contracts	–	–	58,131	50,958
Reserves for insurance contracts, gross	82,693	81,029	158,533	148,076
Reserves for losses and loss adjustment expenses, gross	66,542	64,311	–	39
Reserves for unearned premiums, gross	16,023	15,356	–	970
Future life policyholders' benefits, gross	96	92	78,718	75,432
Policyholders' contract deposits and other funds, gross	32	1,269	17,572	14,300
Reserves for unit-linked contracts, gross	–	–	62,243	57,337
Senior debt	6,625	5,354	289	466
Subordinated debt	617	1,038	334	333
Other liabilities[2]	13,970	13,255	18,067	18,502
Total liabilities	**103,905**	**100,676**	**235,354**	**218,335**
Equity				
Common shareholders' equity				
Preferred securities				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	331	368	150	176

[1] As of December 31, 2012 the General Insurance, the Global Life and Farmers segments included assets held for sale amounting to USD 36 million, USD 22 million and USD 31 million, respectively, relating to land and buildings formerly classified as real estate held for investment and the General Insurance segment also includes assets held for sale amounting to USD 10 million, relating to land and buildings formerly classified as real estate held for own use. As of December 31, 2011, the General Insurance and Global Life segments included assets held for sale amounting to USD 38 million and USD 17 million, respectively, relating to the sale of a company in Bolivia (see note 5).

[2] As of December 31, 2011, the General Insurance and Global Life segments included liabilities held for sale amounting to USD 41 million and USD 14 million, respectively, relating to the sale of a company in Bolivia (see note 5).

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
3,881	4,267	18,503	19,099	12,246	13,119	(28,785)	(27,965)	208,707	197,677
377	580	8,562	8,608	2,517	2,637	(16,249)	(14,552)	9,098	8,882
96	93	1,686	1,533	376	219	–	–	12,341	12,650
1,274	1,295	4,707	4,563	6,250	7,016	(1,819)	(962)	155,594	144,511
101	132	43	42	256	258	–	–	8,561	8,472
–	–	–	–	1,125	1,409	–	–	10,519	11,058
2,033	2,168	3,498	4,347	1,633	1,495	(10,717)	(12,451)	12,423	11,944
–	–	9	6	89	84	–	–	172	161
–	–	–	–	11,877	11,508	–	–	125,226	114,276
3,881	4,267	18,503	19,099	24,123	24,626	(28,785)	(27,965)	333,934	311,953
–	–	–	–	4,042	4,509	(174)	(656)	19,753	19,592
2,319	2,141	–	–	194	508	–	(28)	2,588	2,711
337	352	–	–	–	1	–	–	18,346	17,420
–	–	–	–	–	–	–	–	770	824
819	819	–	–	–	–	–	–	2,107	2,060
1,407	1,434	300	286	1	1	–	–	7,448	8,062
1,071	1,009	1,717	1,906	1,345	1,261	(2,122)	(1,927)	24,322	24,350
9,834	**10,023**	**20,520**	**21,291**	**29,705**	**30,906**	**(31,081)**	**(30,575)**	**409,267**	**386,971**
–	–	–	–	–	–	–	–	58,131	50,958
2,841	2,728	36	39	21,303	21,972	(174)	(637)	265,233	253,207
1,580	1,410	27	28	1,969	2,559	(131)	(586)	69,986	67,762
1,262	1,318	4	4	20	22	(9)	(9)	17,300	17,661
–	–	6	6	5,020	5,097	(33)	(42)	83,807	80,584
–	–	–	–	2,420	2,787	–	–	20,024	18,356
–	–	–	–	11,874	11,507	–	–	74,117	68,844
214	125	24,398	22,826	2,554	2,134	(27,421)	(24,365)	6,660	6,541
–	–	5,788	5,432	23	23	(901)	(1,350)	5,861	5,476
1,325	1,635	1,925	3,221	3,818	4,428	(2,586)	(4,224)	36,521	36,816
4,380	**4,488**	**32,148**	**31,517**	**27,699**	**28,557**	**(31,081)**	**(30,575)**	**372,405**	**352,998**
								34,494	31,484
								–	–
								34,494	31,484
								2,368	2,489
								36,862	33,973
								409,267	**386,971**
120	171	150	124	–	–	–	–	751	840

Consolidated financial statements *continued*

General Insurance – Customer segment overview

Table 29.4

in USD millions, for the years ended December 31	Global Corporate		North America Commercial	
	2012	2011	**2012**	2011
Gross written premiums and policy fees	8,609	7,949	10,003	9,777
Net earned premiums and policy fees	5,499	5,350	7,634	7,644
Insurance benefits and losses, net	4,291	4,564	5,453	5,126
Policyholder dividends and participation in profits, net	1	–	3	8
Total net technical expenses	1,159	1,085	2,152	2,196
Net underwriting result	48	(300)	26	315
Net investment income	573	600	827	979
Net capital gains/(losses) and impairments on investments	17	2	44	8
Net non-technical result (excl. items not included in BOP)	(142)	(133)	(199)	(255)
Business operating profit before non-controlling interests	495	169	698	1,048
Non-controlling interests	(1)	–	(1)	–
Business operating profit	496	169	699	1,048

Ratios, as % of net earned premiums and policy fees				
Loss ratio	78.0%	85.3%	71.4%	67.0%
Expense ratio	21.1%	20.3%	28.2%	28.8%
Combined ratio	99.1%	105.6%	99.7%	95.9%

	Europe		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	11,882	12,932	5,603	4,425	345	401	(832)	(912)	35,610	34,572
	11,772	12,647	4,282	3,377	9	58	–	–	29,195	29,076
	8,225	8,980	2,583	2,462	(25)	(192)	–	–	20,527	20,939
	–	–	–	–	–	–	–	–	4	9
	3,237	3,306	1,644	1,180	11	22	(2)	14	8,200	7,804
	310	360	55	(265)	22	228	2	(14)	463	324
	785	928	269	236	64	57	(2)	(1)	2,516	2,799
	1	(1)	9	–	–	–	–	–	71	8
	(414)	(351)	(110)	(118)	(37)	(44)	–	15	(901)	(886)
	683	935	224	(147)	49	240	–	–	2,149	2,245
	(5)	(11)	58	9	–	–	–	–	52	(2)
	687	946	166	(156)	49	240	–	–	2,097	2,247
	69.9%	71.0%	60.3%	72.9%	nm	nm	n/a	n/a	70.3%	72.0%
	27.5%	26.1%	38.4%	34.9%	nm	nm	n/a	n/a	28.1%	26.9%
	97.4%	97.2%	98.7%	107.8%	nm	nm	n/a	n/a	98.4%	98.9%

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	
	2012	2011	**2012**	2011
North America				
United States	12,223	11,494		
Canada	928	930		
Bermuda	10	–		
North America	13,160	12,424	3,343	2,838
Europe				
United Kingdom	3,899	3,878		
Germany	3,110	3,387		
Switzerland	3,243	3,408		
Italy	1,879	2,122		
Spain	1,438	1,671		
Rest of Europe	2,718	2,750		
Europe	16,287	17,215	4,279	4,150
Latin America				
Argentina	393	278		
Brazil	920	571		
Chile	470	270		
Mexico	600	291		
Venezuela	257	244		
Rest of Latin America	34	34		
Latin America	2,674	1,687	–	–
Asia-Pacific				
Australia	1,178	1,114		
Hong Kong	210	182		
Japan	780	736		
Taiwan	129	126		
Rest of Asia-Pacific	420	288		
Asia-Pacific	2,717	2,446	581	590
Middle East	183	118	121	80
Africa				
South Africa	460	539		
Morocco	125	130		
Africa	585	669	19	–
Total	**35,607**	**34,559**	**8,342**	**7,659**

General Insurance – Non-current assets by region

Table 29.6

in USD millions, as of December 31	Property/equipment and intangible assets	
	2012	2011
North America		
United States	223	247
Canada	4	6
Bermuda	24	–
North America	252	254
Europe		
United Kingdom	213	199
Germany	210	210
Switzerland	593	589
Italy	34	49
Spain	346	501
Rest of Europe	605	609
Europe	2,001	2,158
Latin America		
Argentina	11	15
Brazil	234	207
Chile	34	32
Mexico	263	261
Venezuela	16	13
Rest of Latin America	5	5
Latin America	561	534
Asia-Pacific		
Australia	74	79
Hong Kong	13	6
Japan	27	33
Taiwan	9	18
Rest of Asia-Pacific	4	4
Asia-Pacific	128	140
Middle East	43	35
Africa		
South Africa	15	19
Morocco	32	31
Africa	46	50
Total	**3,032**	**3,170**

Consolidated financial statements *continued*

Global Life – Overview

Table 29.7

in USD millions, for the years ended December 31	North America		Latin America	
	2012	2011	**2012**	2011
Revenues				
Life insurance deposits	235	298	2,508	274
Gross written premiums[1]	526	509	2,982	650
Policy fees	297	283	24	24
Gross written premiums and policy fees	823	793	3,005	674
Net earned premiums and policy fees	611	579	2,686	645
Net investment income on Group investments	312	330	254	134
Net capital gains/(losses) and impairments on Group investments	–	–	272	–
Net investment result on Group investments	312	330	526	134
Net investment income on unit-linked investments	(34)	(29)	9	8
Net capital gains/(losses) and impairments on unit-linked investments	59	(18)	1,166	(24)
Net investment result on unit-linked investments	24	(47)	1,175	(16)
Other income	92	97	83	15
Total BOP revenues	1,039	960	4,470	778
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	350	339	1,404	447
Policyholder dividends and participation in profits, net	48	(24)	1,196	(13)
Income tax expense/(benefit) attributable to policyholders	–	–	–	–
Underwriting and policy acquisition costs, net	97	123	964	132
Administrative and other operating expense (excl. depreciation/amortization)	140	129	365	142
Interest credited to policyholders and other interest	147	137	36	5
Restructuring provisions and other items not included in BOP	(1)	1	7	3
Total BOP benefits, losses and expenses	781	704	3,972	717
Business operating profit (before interest, depreciation and amortization)	**258**	**256**	**498**	**61**
Depreciation and impairments of property and equipment	1	1	3	2
Amortization and impairments of intangible assets	9	26	223	2
Interest expense on debt	4	2	(6)	9
Business operating profit before non-controlling interests	244	227	277	49
Non-controlling interests	–	–	122	–
Business operating profit	**244**	**227**	**155**	**49**

[1] Europe includes approximately USD 603 million and USD 936 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, 2012 and 2011, respectively (see note 3).

	Europe		Asia-Pacific and Middle East		Other		Eliminations		Total
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
11,685	13,244	1,636	1,771	605	541	–	–	16,670	16,127
6,820	7,640	721	560	137	102	(40)	(30)	11,145	9,432
1,928	1,715	191	125	5	4	–	–	2,445	2,152
8,748	9,355	912	686	142	106	(40)	(30)	13,590	11,583
8,405	8,961	786	580	133	100	–	–	12,621	10,865
3,225	3,562	188	107	11	13	–	–	3,991	4,146
552	396	18	33	–	–	–	–	842	429
3,778	3,957	206	140	11	13	–	–	4,833	4,575
2,026	2,024	79	106	32	30	–	–	2,112	2,139
5,586	(4,595)	682	(946)	98	(104)	–	–	7,591	(5,687)
7,612	(2,572)	761	(840)	131	(74)	–	–	9,703	(3,548)
332	426	190	197	357	280	(6)	(4)	1,047	1,012
20,126	10,773	1,943	77	631	320	(6)	(4)	28,203	12,904
7,480	8,455	293	216	64	47	–	–	9,592	9,503
8,478	(1,920)	919	(801)	139	(69)	–	–	10,781	(2,826)
170	(255)	25	14	–	–	–	–	194	(242)
1,401	1,507	204	156	138	111	–	1	2,804	2,029
1,419	1,562	327	340	291	225	(6)	(5)	2,536	2,394
192	224	27	28	1	–	–	–	403	395
(114)	(127)	7	(7)	(13)	–	–	–	(113)	(130)
19,025	9,446	1,802	(53)	622	314	(6)	(4)	26,196	11,123
1,101	**1,327**	**141**	**131**	**9**	**6**	**–**	**–**	**2,007**	**1,781**
21	23	6	4	–	–	–	–	32	30
242	279	1	3	7	4	–	–	483	315
21	43	1	–	2	1	–	–	22	56
817	981	133	123	–	–	–	–	1,471	1,380
12	27	(2)	(1)	–	–	–	–	132	26
805	**953**	**135**	**124**	**–**	**–**	**–**	**–**	**1,338**	**1,353**

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	
	2012	2011	**2012**	**2011**
North America				
United States	823	793	235	298
North America	823	793	235	298
Latin America				
Chile	900	348	–	–
Argentina	78	36	47	44
Bolivia	–	12	–	12
Mexico	352	73	–	–
Venezuela	65	57	–	–
Brazil	1,606	148	2,462	218
Uruguay	5	–	–	–
Latin America	3,005	674	2,508	274
Europe				
United Kingdom	1,773	1,539	6,339	6,359
Germany	2,920	3,273	1,966	2,234
Switzerland	2,047	1,964	141	106
Ireland[1]	479	573	2,497	2,036
Spain	906	1,344	163	1,560
Italy	408	361	488	841
Portugal	30	31	42	53
Austria	135	212	49	55
Europe	8,698	9,296	11,685	13,244
Asia-Pacific and Middle East				
Hong Kong	86	89	133	146
Taiwan	–	–	3	–
Indonesia	1	1	2	–
Australia	332	304	83	79
Japan	99	101	21	22
Malaysia	263	85	–	–
Zurich International Life[2]	130	108	1,395	1,525
Asia-Pacific and Middle East	912	687	1,636	1,771
Other				
Luxembourg[1]	5	4	605	541
International Group Risk Solutions[3]	92	66	–	–
Other	97	70	605	541
Total	**13,535**	**11,520**	**16,670**	**16,127**

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

Global Life – Non-current assets by region

Table 29.9

in USD millions, as of December 31	Property / equipment and intangible assets	
	2012	2011
North America		
United States	165	174
North America	165	174
Latin America		
Chile	472	490
Argentina	96	113
Mexico	256	277
Brazil	965	1,156
Latin America	1,789	2,036
Europe		
United Kingdom	426	415
Germany	743	816
Switzerland	81	60
Ireland[1]	2	3
Spain	1,759	1,833
Italy	122	244
Austria	32	6
Europe	3,164	3,378
Asia-Pacific and Middle East		
Hong Kong	8	7
Indonesia	3	3
Japan	3	3
Singapore	1	–
Malaysia	124	109
Zurich International Life	20	5
Asia-Pacific and Middle East	158	127
Other		
Luxembourg[1]	4	4
Other	4	4
Total	**5,280**	**5,719**

[1] Includes assets relating to business written under freedom of services and freedom of establishment in Europe.

Consolidated financial statements *continued*

Farmers – Overview

Table 29.10

in USD millions, for the years ended December 31	Total	
	2012	2011
Farmers Management Services		
Management fees and other related revenues	2,846	2,767
Management and other related expenses	1,467	1,434
Gross management result	1,378	1,333
Other net income (excl. items not included in BOP)	62	36
Business operating profit before non-controlling interest	1,441	1,370
Business operating profit	1,441	1,370
Farmers Re		
Gross written premiums and policy fees	4,361	3,529
Net earned premiums and policy fees	4,418	2,984
Insurance benefits and losses, net	(3,198)	(2,105)
Total net technical expenses	(1,383)	(903)
Net underwriting result	(163)	(23)
Net non-technical result (excl. items not relevant for BOP)	65	58
Net investment income	72	82
Business operating profit before non-controlling interests	(26)	116
Business operating profit	(26)	116
Farmers business operating profit	**1,414**	**1,486**

Ratios, as % of net earned premiums and policy fees		
Farmers Re Combined ratio	103.7%	100.8%

Supplementary information		
Property, equipment and intangible assets	2,403	2,454

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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	
	2012	2011
Gross written premiums and policy fees	108	133
Net earned premiums and policy fees	58	74
Net investment income	362	489
Other income	85	94
Total BOP revenues	506	657
Insurance benefits and losses, incl. PH dividends, net	57	57
Underwriting and policy acquisition costs, net	–	15
Administrative and other operating expense (excl. depreciation/amortization)	170	170
Other expenses (excl. items not included in BOP)	(14)	(91)
Depreciation, amortization and impairments of property, equipment and intangible assets	8	3
Interest expense on debt	1,042	1,092
Business operating profit before non-controlling interests	(758)	(589)
Non-controlling interests	(22)	–
Business operating profit	**(736)**	**(589)**

	Headquarters		Eliminations		Total	
	2012	2011	2012	2011	2012	2011
	8	8	–	–	116	141
	8	8	–	–	66	83
	39	43	(5)	(8)	396	524
	1,015	960	(169)	(134)	931	920
	1,062	1,011	(175)	(141)	1,393	1,527
	(1)	1	–	–	56	58
	–	–	–	–	–	16
	1,147	1,156	(169)	(133)	1,148	1,193
	(4)	(5)	–	–	(18)	(96)
	86	104	–	–	94	107
	2	2	(6)	(9)	1,038	1,085
	(167)	(246)	–	–	(925)	(835)
	–	–	–	–	(22)	–
	(167)	**(246)**	**–**	**–**	**(903)**	**(835)**

Financial information

Consolidated financial statements *continued*

Non-Core Businesses – Overview

Table 29.12

in USD millions, for the years ended December 31	Total	
	2012	2011
Gross written premiums and policy fees	475	594
Net earned premiums and policy fees	455	(108)
Insurance benefits and losses, net	380	475
Policyholder dividends and participation in profits, net	694	133
Total net technical expenses	56	76
Net underwriting result	(675)	(792)
Net investment income	66	47
Net capital gains/(losses) and impairments on investments	816	944
Net non-technical result (excl. items not included in BOP)	(78)	(206)
Business operating profit before non-controlling interests	**129**	**(7)**
Non-controlling interests	1	1
Business operating profit	**128**	**(8)**

30. Significant subsidiaries

Significant subsidiaries

Table 30

as of December 31, 2012	Domicile	Segment[1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Australia						
Zurich Australia Limited	Sydney	Global Life	100	100	AUD	0.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Zurich Financial Services Australia Limited	Sydney	General Insurance	100	100	AUD	22.8
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance/ 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
Zurich International (Bermuda) Ltd.	Hamilton	General Insurance	100	100	USD	9.9
Brazil						
Zurich Santander Brasil Vida e Previdência S.A.[2]	São Paulo	Life Insurance	51	51	BRL	1,659.2
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	General Insurance/ Global Life	100	100	BRL	684.1
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.98	98.98	CLP	24,484.0
Zurich Santander Seguros de Vida Chile S.A.[2]	Santiago	Global Life	51	51	CLP	108,638.5
Cyprus						
Zurich Insurance Holding (Cyprus) Ltd.[3]	Nicosia	General Insurance	100	100	RUB	5.6
Germany						
Deutscher Herold Aktiengesellschaft[4]	Bonn	Global Life	79.83	79.83	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	86.37	86.37	EUR	68.5
Ireland						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Financial Services EUB Holdings Limited	Dublin	Non-Core Businesses	100	100	GBP	0.001
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	8.2
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Italy						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	164.0
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	85.8
Luxembourg						
Zurich Eurolife S.A.	Bertrange	Global Life	100	100	EUR	27.0
Zurich Finance (Luxembourg) S.A.	Luxembourg	Other Operating Businesses	100	100	EUR	2.1
Malaysia						
Zurich Insurance Malaysia Berhad	Kuala Lumpur	General Insurance/ Global Life	100	100	MYR	579.0

Consolidated financial statements *continued*

Significant subsidiaries (continued)

Table 30

as of December 31, 2012	Domicile	Segment[1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Mexico						
Zurich Santander Seguros México, S.A.[2]	Mexico City	General Insurance/ Global Life	51	51	MXN	190.0
South Africa						
Zurich Insurance Company South Africa Limited[5]	Johannesburg	General Insurance	84.05	84.05	ZAR	3.0
Spain						
Bansabadell Pensiones, E.G.F.P, S.A.	Barcelona	Global Life	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Barcelona	General Insurance	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros y Reaseguros	Barcelona	Global Life	50	50	EUR	43.9
Zurich Latin America Holding S.L. – Sociedad Unipersonal[2]	Barcelona	Other Operating Businesses	100	100	EUR	43.0
Zurich Santander Holding (Spain), S.L.[2]	Madrid	Global Life	51	51	EUR	94.3
Zurich Santander Holding Dos (Spain), S.L.[2]	Madrid	Global Life	51	51	EUR	40.0
Zurich Santander Insurance America, S.L.[2]	Madrid	Global Life	51	51	EUR	177.0
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	20.4
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	147.8
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

Significant subsidiaries (continued)

Table 30

as of December 31, 2012	Domicile	Segment[1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
United States of America						
Farmers Group, Inc.[8]	Reno, NV	Farmers	100	100	USD	0.001
Farmers New World Life Insurance Company[8]	Mercer Island, WA	Global Life	100	100	USD	6.6
Farmers Reinsurance Company[8]	Los Angeles, CA	Farmers	100	100	USD	58.8
Farmers Services LLC[9]	Wilmington, DE	Farmers	100	100	USD	–
Zurich American Corporation	Wilmington, DE	Non-Core Businesses	100	100	USD	0.00001
Zurich American Life Insurance Company	Schaumburg, IL	Non-Core Businesses	100	100	USD	2.5
ZFS Finance (USA) LLC V[9]	Wilmington, DE	Other Operating Businesses	100	100	USD	–
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD	5.0
Zurich Finance (USA), Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	0.000001
Zurich Holding Company of America, Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	0.02

[1] The segments are defined in the notes to the Consolidated financial statements, note 29, Segment information.
[2] Relates to Zurich Santander (see note 5).
[3] Zurich Insurance Holding (Cyprus) Limited indirectly holds 99.9% of Zurich Insurance Company Limited in Russia which is a wholly owned subsidiary of the Zurich Insurance Group.
[4] In addition buy out options exist which allow the minority shareholders to sell 15.17 percent of the shares of Deutscher Herold Aktiengesellschaft to the Zurich Insurance Group.
[5] Listed on the Johannesburg Stock Exchange. On December 31, 2012, the company had a market capitalization of ZAR 3,04 billion (ISIN Number 000094496).
[6] The results of the operating activities are included in the General Insurance and Global Life segments, 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.
[8] The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of Zurich Insurance Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
[9] These entities are LLCs and have no share capital.

Report of the statutory auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Insurance Group Ltd

Report of the statutory auditor on the Consolidated financial statements

As statutory auditor, we have audited the Consolidated financial statements of Zurich Insurance Group 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 112 to 152 and 165 to 285), for the year ended December 31, 2012.

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, 2012 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	Stephen O'Hearn
Audit expert	Global relationship partner
Auditor in charge	

Zurich, February 13, 2013

Embedded value report

Zurich produces and reports Market Consistent Embedded Value in accordance with the Market Consistent Embedded Value Principles and Guidance issued by the CFO Forum in October 2009 to provide an economic view of the value of the life business to shareholders in order 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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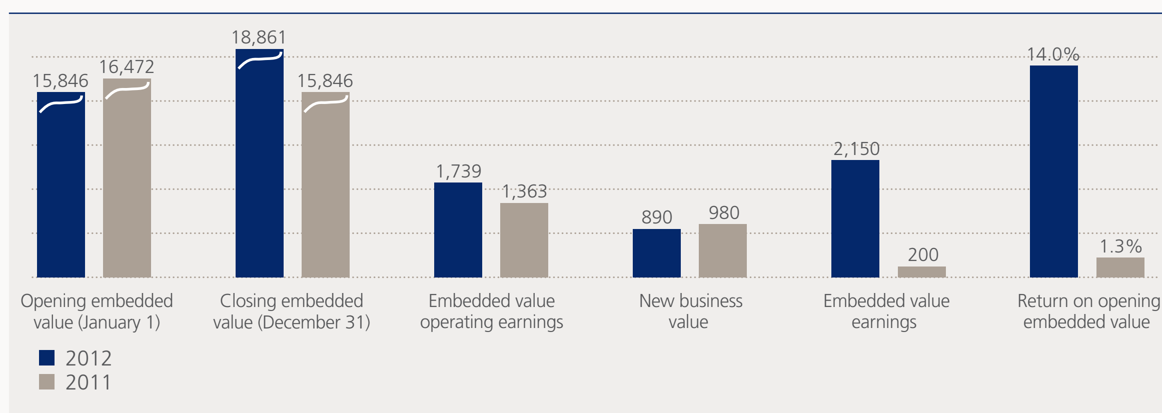
This report describes the development of the embedded value of the Zurich Insurance Group (the Group) for the year ended December 31, 2012.

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 years ended December 31



Embedded value key results

in USD millions, for the years ended December 31	2012[1,2,3,4]	2011[1,2]	Change
Opening embedded value	15,846	16,472	(627)
Closing embedded value	18,861	15,846	3,016
Embedded value operating earnings	1,739	1,363	376
of which new business value	*890*	*980*	*(90)*
Embedded value earnings	2,150	200	1,950
Return on opening embedded value	14.0%	1.3%	12.8%

[1] A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011, see embedded value assumptions Section 13 b). This has a transitional impact over two years from the implementation date relating to renewals of business in force at the date of the change. The renewed business contributed USD 68 million of new business value in 2012, compared with USD 126 million in 2011.
[2] A liquidity premium has been included in the time value of options and guarantees since December 31, 2011.
[3] Embedded value for Zurich Santander and Zurich Insurance Malaysia Berhad (ZIMB) is included in the end of year Global Life embedded value result. See section 6 for further details.
[4] New business for 2012 does not include any amounts from Zurich Santander or Zurich Insurance Malaysia Berhad (ZIMB). The new business value from Zurich Santander and ZIMB for the year 2012 was USD 195 million. See section 6 for further details.

Embedded value operating earnings were USD 1,739 million. Of this, USD 954 million was the expected emergence of value from in-force business and USD 890 million from new business, partially offset by adverse operating variances of USD 105 million arising from experience variances and assumption changes.

New business value of USD 890 million has decreased by USD 90 million or 9 percent compared with 2011. After adjusting for the transitional impact of corporate protection business renewals, the new business value on a local currency basis was flat compared with 2011. New business value for the acquired businesses of Zurich Santander and Zurich Insurance Malaysia Berhad (ZIMB) was USD 195 million for the year 2012. New business for these businesses has not been included in the Global Life new business result. See section 6 for further details.

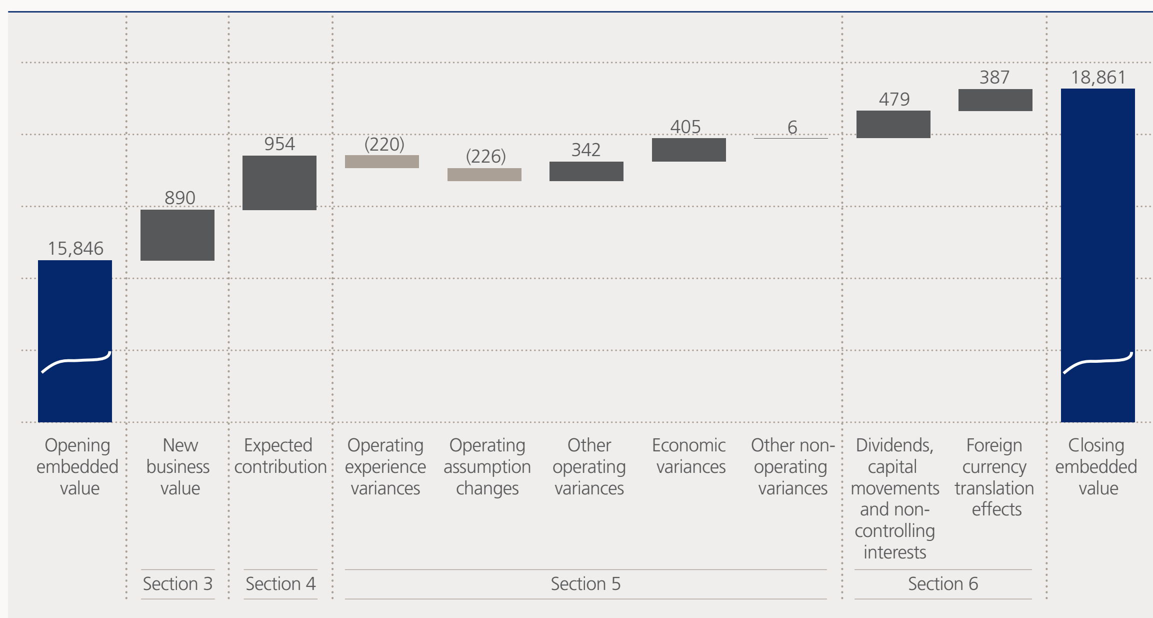
Embedded value earnings were USD 2,150 million, generating a return on embedded value of 14.0 percent. This increase was the result of the strong operating earnings and favorable economic variances.

Embedded value report *continued*

1. Analysis of embedded value earnings

The graph and table below show how the embedded value has moved from USD 15,846 million to USD 18,861 million over the 2012 calendar year. Each movement is described in its own section of the report as detailed on the graph below.

Embedded value development
in USD millions, for the year ended December 31, 2012

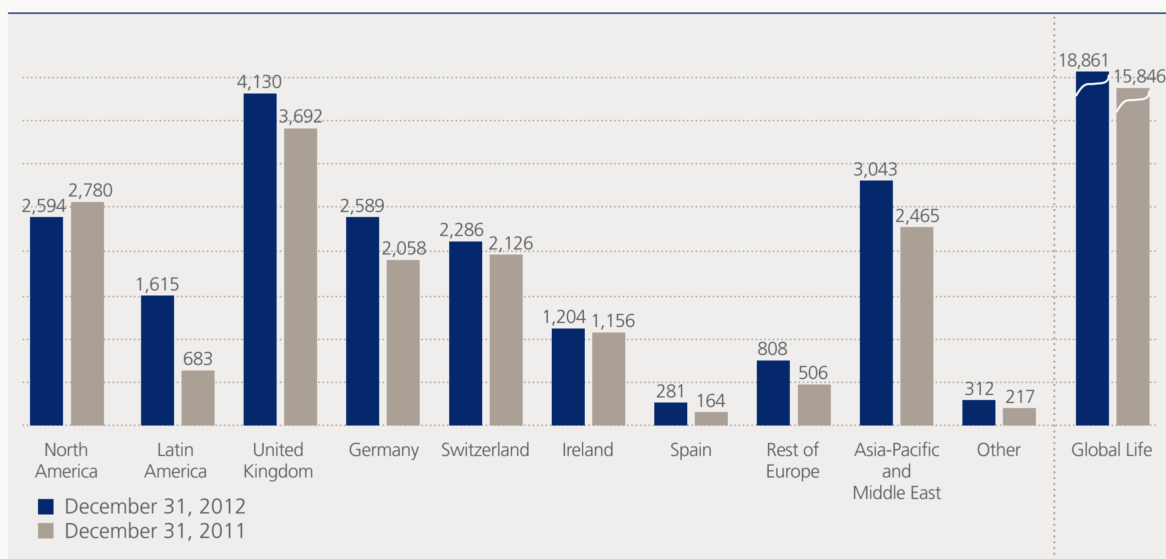


Analysis of embedded value earnings

in USD millions, for the years ended December 31	2012					2011
	Required capital	Free surplus	Shareholders' net assets	Value of business in force	Total	Total
Opening embedded value	**5,145**	**1,243**	**6,388**	**9,457**	**15,846**	**16,472**
Dividends & capital movements start of period	(342)	(99)	**(442)**	**(92)**	**(534)**	**(525)**
New business value	**(93)[1]**	**(747)**	**(840)**	**1,730**	**890**	**980**
New business net of non-controlling interests	*(109)[1]*	*(726)*	*(836)*	*1,679*	*844*	*926*
Expected contribution at reference rate	36	54	**90**	**183**	**274**	**205**
Expected contribution in excess of reference rate	(21)	27	**6**	**674**	**680**	**535**
Transfer to shareholders' net assets	470[1]	671	**1,141**	**(1,141)**	**–**	**–**
Operating experience variances	61	(71)	**(11)**	**(210)**	**(220)**	**(63)**
Operating assumption changes	23	(93)	**(70)**	**(157)**	**(226)**	**(151)**
Other operating variances	(268)	314	**46**	**296**	**342**	**(143)**
Operating earnings	**207**	**155**	**362**	**1,377**	**1,739**	**1,363**
Economic variances	(320)	569	**249**	**157**	**405**	**(1,322)**
Other non-operating variances	79	(17)	**62**	**(56)**	**6**	**160**
Embedded value earnings	**(34)**	**707**	**673**	**1,477**	**2,150**	**200**
Non-controlling interests	(16)	21	**5**	**(51)**	**(46)**	**(54)**
Dividends & capital movements end of period	367	375	**742**	**318**	**1,059**	**(55)**
Foreign currency translation effects	102	35	**137**	**250**	**387**	**(194)**
Closing embedded value	**5,222**	**2,280**	**7,502**	**11,359**	**18,861**	**15,846**

[1] As noted in Section 12 c), the UK's required capital and free surplus allow for a Pillar 2 basis.

Embedded value by geographical region
in USD millions



In **North America,** embedded value decreased by USD 186 million. Dividends and negative impacts from assumption changes outweigh positive contributions from new business value and the expected return on the opening position. Dividends to the Group were USD 236 million.

Embedded value increased in **Latin America** by USD 932 million to USD 1,615 million, mainly due to the inclusion of the Zurich Santander embedded value as at December 31, 2012. The embedded value added by Zurich Santander was USD 820 million.

In the **UK,** embedded value increased by USD 438 million. The main drivers were strong new business value, modeling changes and favorable exchange rate movements partially offset by economic variances.

In **Germany,** positive impacts came from various modeling changes. These were partially offset by expense assumption updates and other operating variances. The net impact on the embedded value was an increase of USD 531 million.

Embedded value in **Switzerland** increased by USD 160 million following positive investment variance that was to some extent offset by capital movements.

In **Ireland,** stable new business value and good unit-linked performance were partially offset by adverse persistency. The total embedded value increased by USD 47 million.

In **Spain**, embedded value increased by USD 117 million due to continued strong new business performance and a model enhancement.

In **Rest of Europe,** embedded value increased by USD 302 million, mainly from positive investment variances as credit spreads narrowed in Italy and Portugal.

In **Asia-Pacific and Middle East,** embedded value increased by USD 578 million. The main drivers were the inclusion of the ZIMB embedded value, contributing USD 340 million, and new business value of USD 125 million from the existing business in the region.

In **Other**, the embedded value increased by USD 95 million mainly due to new business value contribution.

Embedded value report *continued*

2. Free surplus

Required capital is the amount of shareholders' net asset value required to cover the target capital requirement, covering both minimum solvency margin and target excess solvency margin. Free surplus is the difference between the target capital requirement and the shareholders' net asset value.

Shareholders' net assets

in USD millions, as of December 31, 2012 and December 31, 2011	2012				2011
	Shareholders' net assets	Required capital	Required capital (% SM)[1]	Free surplus	Free surplus
North America	473	527	300.8%	(53)	114
Latin America	1,081	488	108.3%	593	248
Europe	4,574	3,286	121.8%	1,288	565
of which:					
United Kingdom	*1,011*	*1,015*	*134.4%*	*(3)*	*(265)*
Germany	*1,931*	*764*	*100.6%*	*1,167*	*1,035*
Switzerland	*284*	*271*	*100.0%*	*13*	*15*
Ireland	*423*	*387*	*149.1%*	*36*	*68*
Spain	*250*	*334*	*125.0%*	*(83)*	*(148)*
Rest of Europe	*674*	*515*	*133.5%*	*159*	*(140)*
Asia-Pacific and Middle East	1,277	877	117.3%	400	259
Other	97	44	101.5%	53	58
Global Life	**7,502**	**5,222**	**126.9%**	**2,280**	**1,243**

[1] SM is the local minimum solvency margin.

In **North America,** free surplus reduced mainly from dividend payments to the Group of USD 236 million.

In **Latin America,** free surplus increased by USD 345 million, mainly as a result of the inclusion of the Zurich Santander business. Without the inclusion of Zurich Santander business free surplus decreased by USD 15 million as capital was used to invest in the region.

In the **UK**, free surplus increased by USD 262 million mainly due to a release of required capital.

In **Germany** and **Switzerland,** surplus in the main life insurance entities is treated as required capital and free surplus is related to other companies included in the covered business. The increase in free surplus in Germany is mainly related to growth in assets outside of the main life insurance entities. In Switzerland, free surplus in 2012 was largely flat.

In **Ireland,** free surplus decreased by USD 32 million due to business development costs.

In **Spain,** free surplus increased mainly due to positive investment performance and a capital transfer from the Group.

In **Rest of Europe,** free surplus increased by USD 299 million. This was mainly due to positive investment variances as credit spreads narrowed in Italy and Portugal.

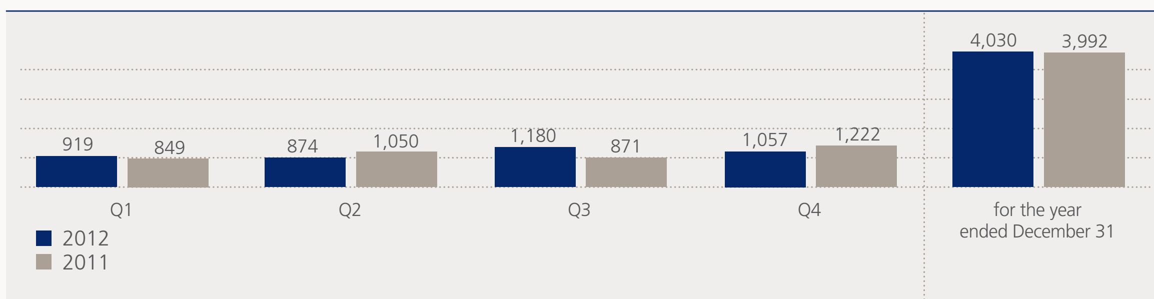
In **Asia-Pacific and Middle East,** free surplus increased mainly due to the inclusion of the ZIMB business.

In **Other,** free surplus decreased by USD 4 million.

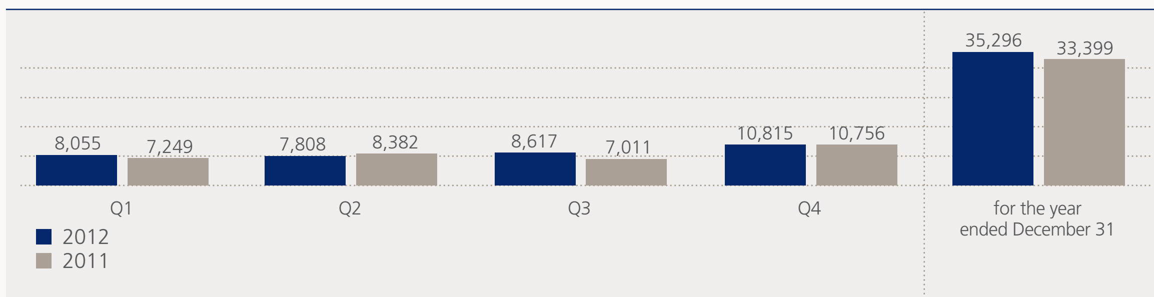
3. New business

Global Life

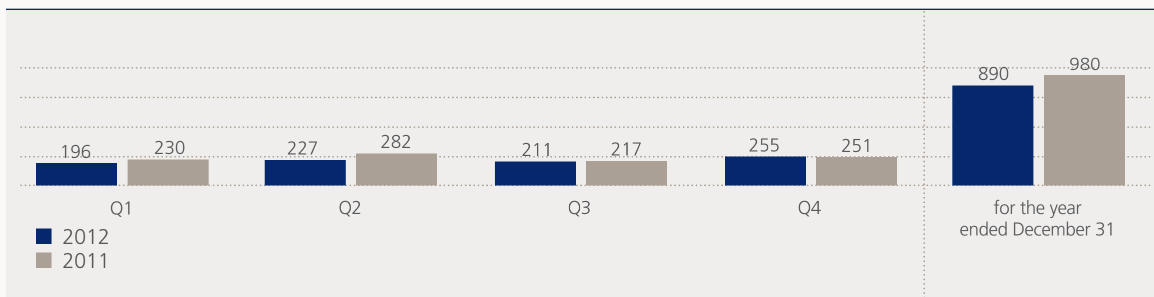
Annual premium equivalent (APE)
in USD millions



Present value of new business premiums (PVNBP)
in USD millions

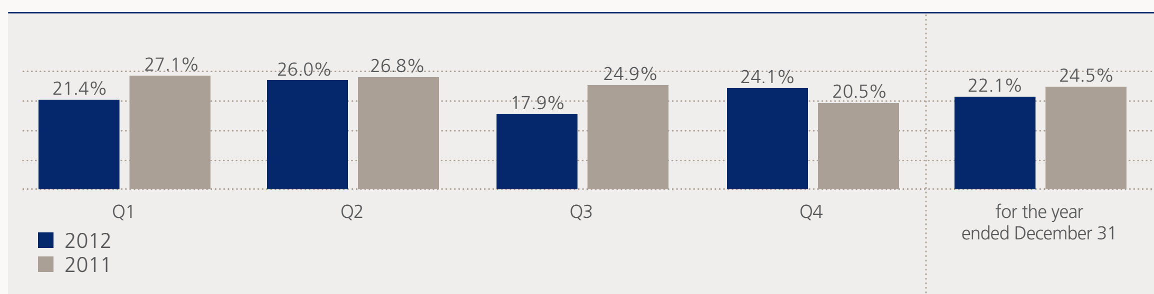


New business value
in USD millions

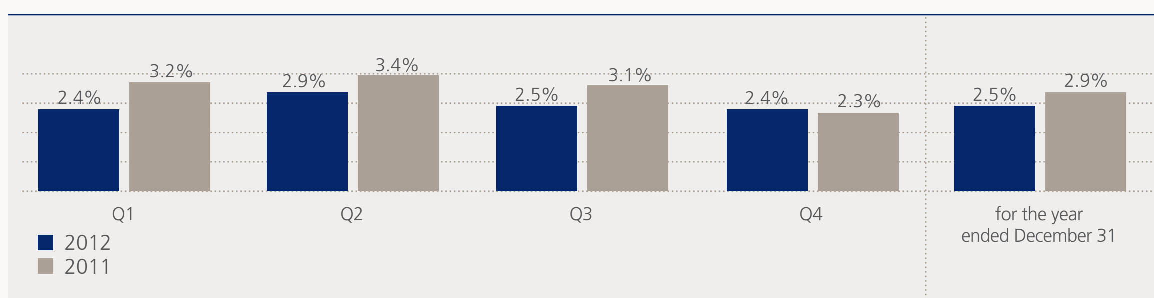


Embedded value report *continued*

New business margin (%APE)
in percent



New business margin (%PVNBP)
in percent



New business by quarter

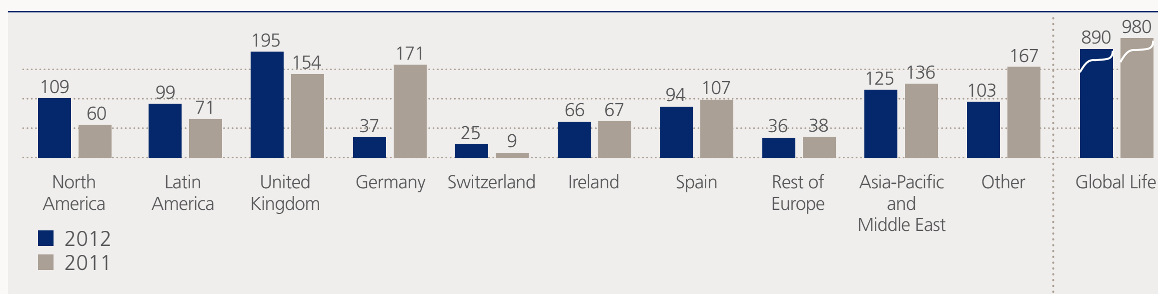
in USD millions	2012					2011				
	Q1	Q2	Q3	Q4	Q4 YTD	Q1	Q2	Q3	Q4	Q4 YTD
Annual premium equivalent (APE)[1]	**919**	**874**	**1,180**	**1,057**	**4,030**	**849**	**1,050**	**871**	**1,222**	**3,992**
Annual premiums	582	529	906	661	2,677	499	645	531	704	2,379
Single premiums	3,371	3,451	2,741	3,964	13,527	3,496	4,051	3,402	5,175	16,125
Present value of new business premiums (PVNBP)[2]	8,055	7,808	8,617	10,815	35,296	7,249	8,382	7,011	10,756	33,399
Average annual premium multiplier	8.1	8.2	6.5	10.4	8.1	7.5	6.7	6.8	7.9	7.3
New business value	**196**	**227**	**211**	**255**	**890**	**230**	**282**	**217**	**251**	**980**
New business margin (% of APE)	**21.4%**	**26.0%**	**17.9%**	**24.1%**	**22.1%**	**27.1%**	**26.8%**	**24.9%**	**20.5%**	**24.5%**
New business margin (% of PVNBP)	**2.4%**	**2.9%**	**2.5%**	**2.4%**	**2.5%**	**3.2%**	**3.4%**	**3.1%**	**2.3%**	**2.9%**

[1] APE is measured as new annual premiums plus 10 percent of new single premiums.
[2] PVNBP is measured as new single premiums plus the present value of new annual premiums.

Geographical region

New business value by geographical region

in USD millions, for the years ended December 31



New business by geographical region

in USD millions, for the years ended December 31	APE		PVNBP		New business value		New business margin % of APE		New business margin % of PVNBP	
	2012	2011	**2012**	2011	**2012[2,3]**	2011[1]	**2012[2,3]**	2011[1]	**2012[2,3]**	2011[1]
North America	125	111	1,227	1,024	109	60	87.1%	54.3%	8.9%	5.9%
Latin America	755	313	2,458	1,320	99	71	13.2%	22.6%	4.0%	5.3%
Europe	2,538	2,883	26,998	26,784	453	547	17.9%	19.0%	1.7%	2.0%
of which:										
United Kingdom	*1,194*	*1,235*	*14,112*	*11,830*	*195*	*154*	*16.4%*	*12.5%*	*1.4%*	*1.3%*
Germany	*453*	*588*	*4,503*	*5,530*	*37*	*171*	*8.2%*	*29.1%*	*0.8%*	*3.1%*
Switzerland	*220*	*151*	*2,544*	*1,593*	*25*	*9*	*11.5%*	*6.0%*	*1.0%*	*0.6%*
Ireland	*355*	*331*	*3,033*	*2,720*	*66*	*67*	*18.5%*	*20.2%*	*2.2%*	*2.5%*
Spain	*149*	*367*	*1,335*	*3,328*	*94*	*107*	*62.9%*	*29.2%*	*7.0%*	*3.2%*
Rest of Europe	*167*	*212*	*1,471*	*1,782*	*36*	*38*	*21.5%*	*18.0%*	*2.4%*	*2.1%*
Asia-Pacific and Middle East	464	524	3,058	2,943	125	136	26.9%	25.9%	4.1%	4.6%
Other	147	161	1,554	1,328	103	167	70.1%	103.7%	6.6%	12.5%
Global Life	**4,030**	**3,992**	**35,296**	**33,399**	**890**	**980**	**22.1%**	**24.5%**	**2.5%**	**2.9%**

[1] A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011, see embedded value assumptions Section 13 b). This has a transitional impact over two years from the implementation date relating to renewals of business in force at the date of the change. The renewed business contributed USD 68 million of new business value in 2012, compared with USD 126 million in 2011.
[2] A liquidity premium has been included in the time value of options and guarantees since December 31, 2011.
[3] New business for 2012 does not include any amounts from Zurich Santander or Zurich Insurance Malaysia Berhad (ZIMB). The new business value from Zurich Santander and ZIMB for 2012 was USD 195 million. See section 6 for further details.

Annual premium equivalent (APE) increased in **North America** due to higher volumes and sales of new products launched in the North American market. Margins increased on protection business as a result of price increases, improved utilization of reinsurance and lower interest rates. In total, new business value increased by USD 49 million or 81 percent compared with 2011.

Latin America, excluding Zurich Santander, reported an increase in APE of USD 443 million mainly as a result of the successful participation in the Social Security (SIS) biennial bid process in Chile. Other contributions came from increased sales of Corporate Life and Pensions business in Mexico. New business value increased by USD 29 million or 50 percent on a local currency basis, reflecting lower margins on the Chile SIS contract.

Overall in **Europe,** APE reduced by USD 345 million or 8 percent on a local currency basis. Although APE was down across the region, Switzerland and Ireland increased APE compared with 2011. Loss of margin in Germany and the decrease in APE were the main drivers of reduced new business value. This was partially offset by increased margins in the UK, Switzerland, Spain and Italy. Overall, new business value reduced by USD 93 million or 13 percent on a local currency basis.

Embedded value report *continued*

In the **UK,** APE decreased by USD 41 million or 2 percent on a local currency basis. The main driver was a reduction in sales of savings business. However there was an increase in margin due to changes in tax legislation, protection product repricing and improved utilization of reinsurance. New business value increased by USD 41 million or 28 percent on a local currency basis.

In **Germany,** APE and margins reduced. The reduction in margin was mainly attributable to lower interest rates, resulting in reduced spreads on traditional business. As a result, new business value reduced by USD 134 million or 77 percent on a local currency basis.

In **Switzerland,** APE increased by USD 69 million, mainly due to a change to the method of recognizing group pension premiums. This also had the effect of reducing the margin for this type of business. However, margins for unit-linked products and lower guaranteed interest rates on traditional business increased the overall margin. New business value increased by USD 16 million or 196 percent on a local currency basis.

In **Ireland,** APE increased by USD 24 million or 16 percent on a local currency basis. Domestic APE reduced due to the challenging domestic Irish market. Cross border APE increased by over 50 percent, mainly due to sales in Italy. Total new business value reduced by USD 1 million, although it increased by 7 percent on a local currency basis.

In **Spain,** volume as measured by APE, decreased due to lower sales of savings products, although sales of protection business were stable. As the business mix shifted from savings business to more profitable protection business, margins increased. In total, new business value reduced by USD 13 million or 5 percent on a local currency basis compared with 2011.

In **Rest of Europe,** APE reduced by USD 46 million or 15 percent on a local currency basis, mainly due to lower sales of savings business in Italy. This was offset by higher margins in Italy and Portugal which led to new business reducing by USD 2 million or an increase of 2 percent on a local currency basis.

For **Asia-Pacific and Middle East,** the APE reduced by USD 60 million or 11 percent on a local currency basis. This was driven by lower sales of unit-linked business. New business value reduced by USD 11 million or 7 percent on a local currency basis.

In the **Other** region, new business value before the methodology refinements was down 8 percent on a local currency basis compared with the same period of 2011. The effect of the inclusion of the renewal methodology was lower in 2012 resulting in a decrease in new business value after methodology refinements.

4. Expected contribution and transfer to shareholders' net assets

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 higher in 2012 compared with 2011.

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 were to emerge. The expected return in excess of the risk-free rate on sovereign debt in some European countries has increased compared with 2011.

Transfer to shareholders' net assets
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 effect 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

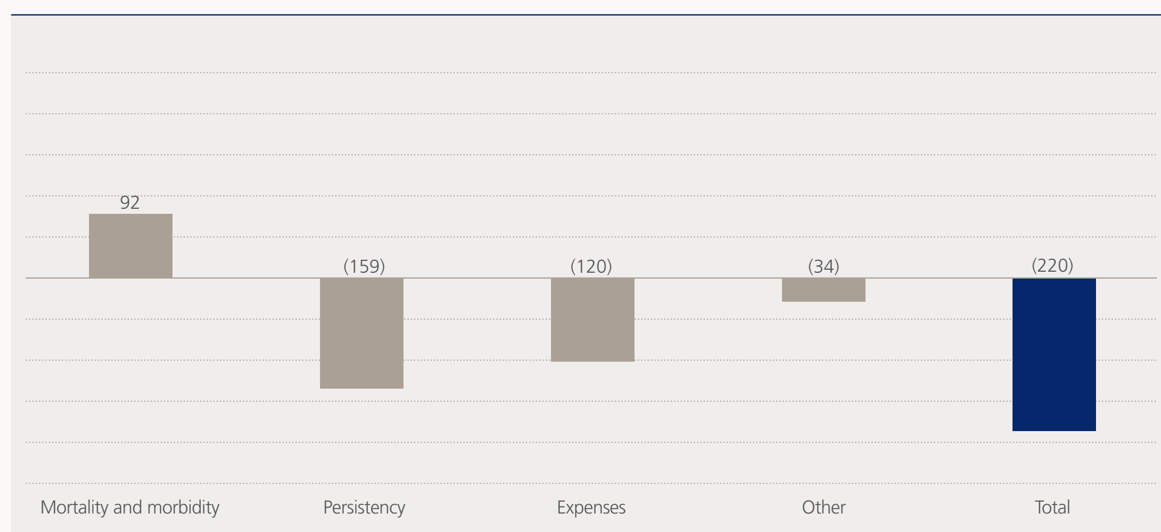
Operating, economic and other non-operating variances

in USD millions, for the year ended December 31, 2012	Operating experience variances	Operating assumption changes	Other operating variances	Economic variances	Other non-operating variances
North America	(24)	(113)	(221)	99	30
Latin America	(20)	(14)	(22)	(11)	(2)
Europe	(124)	(102)	593	224	37
of which:					
United Kingdom	*(52)*	*(29)*	*197*	*(269)*	*17*
Germany	*2*	*(28)*	*286*	*(14)*	*1*
Switzerland	*(5)*	*(13)*	*79*	*192*	*24*
Ireland	*(51)*	*(49)*	*(26)*	*52*	*–*
Spain	*(18)*	*2*	*126*	*(18)*	*(1)*
Rest of Europe	*–*	*14*	*(70)*	*280*	*(5)*
Asia-Pacific and Middle East	(50)	(4)	(16)	86	(62)
Other	(2)	6	8	7	3
Global Life	**(220)**	**(226)**	**342**	**405**	**6**

Operating experience variances

Operating experience variances measure the difference between actual experience during the period and that implied by the operating assumptions. Experience variations occur in the normal course of business as short-term experience fluctuates around long-term assumptions.

Embedded value split of operating experience variance
in USD millions, for the year ended December 31, 2012



- **Mortality and morbidity** experience increased embedded value by USD 92 million. The main positive experience variances were USD 33 million in the UK and USD 34 million in Latin America.

- **Persistency** experience decreased embedded value by USD 159 million. The difficult market conditions in Ireland and Asia-Pacific and Middle East together reduced embedded value by USD 89 million. Experience in Latin America further reduced embedded value by USD 24 million with the loss of some large policies in Mexico.

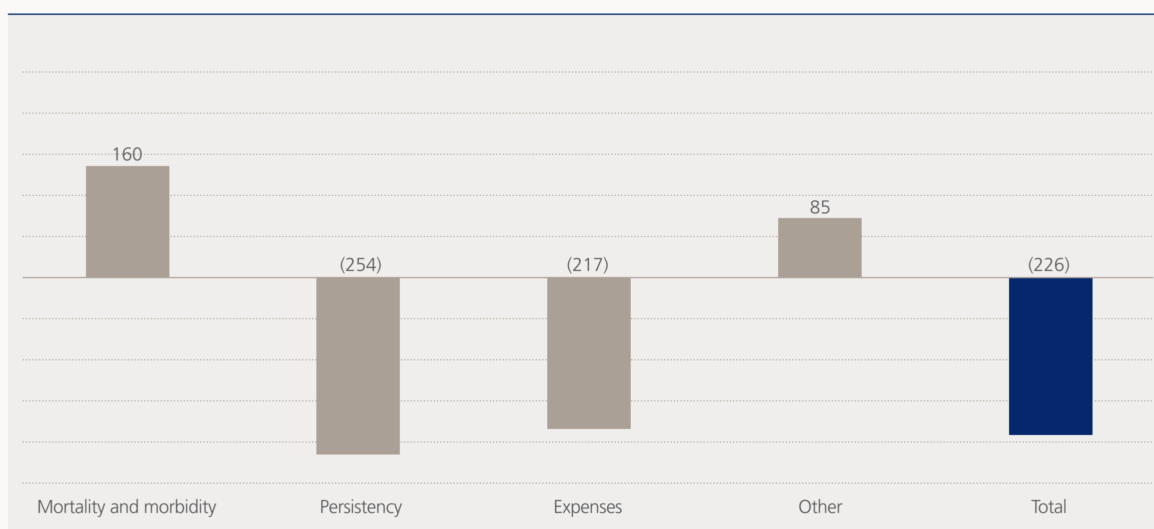
- **Expense** experience reduced embedded value by USD 120 million. The main drivers of this were USD 25 million in North America, USD 34 million in Latin America and USD 33 million in the UK.

- **Other** operating experience variances negatively impacted embedded value by USD 34 million. The main contributor was the UK.

Operating assumption changes

Changes in assumptions about future operating experience also have an impact on operating variances.

Embedded value split of operating assumption changes
in USD millions, for the year ended December 31, 2012



- **Mortality and morbidity** assumption updates increased embedded value by USD 160 million. The main contributors were North America and the UK contributing USD 51 million and USD 47 million respectively.

- **Persistency** assumption updates negatively impacted embedded value by USD 254 million. The main drivers were North America and Ireland contributing USD 154 million and USD 84 million respectively.

- **Expense** assumption changes reduced embedded value by USD 217 million. The main contributor was the UK, where updated expense assumptions decreased embedded value by USD 122 million. Germany, Switzerland and North America also made assumption updates with smaller negative impacts on embedded value partially offset by an update in Ireland with a positive impact on embedded value.

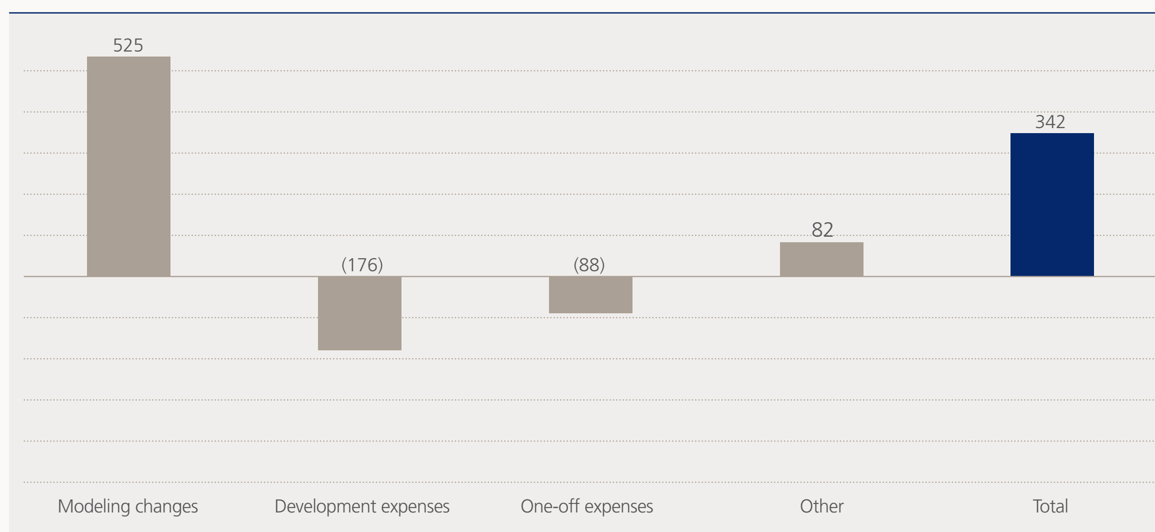
- **Other** assumption changes increased embedded value by USD 85 million, mainly as a result of a restructuring of reinsurance in the UK and increased fund management charges in Asia-Pacific and Middle East.

Embedded value report *continued*

Other operating variances

Other operating variances include modeling changes and non-recurring expenses and operating variances not captured elsewhere.

Embedded value split of other operating variances
in USD millions, for the year ended December 31, 2012



- **Modeling changes** increased embedded value by USD 525 million. In the UK, various model enhancements mainly relating to savings business improved embedded value by USD 249 million. In Germany a model review to reflect the impact of the persistent economic environment and the changing regulatory framework had a net positive impact on embedded value of USD 327 million. In Spain and Switzerland, general enhancements to the valuation models increased value by USD 128 million and USD 75 million respectively. These were offset by USD 186 million in North America mainly as a result of a change in the modeling of a captive arrangement.

- **Development expenses** reduced embedded value by USD 176 million. This was predominantly made up of USD 60 million to fund a new platform in the UK, USD 35 million to fund hub development in Ireland and USD 34 million to expand operations in Asia-Pacific and Middle East.

- **One-off expenses** reduced embedded value by USD 88 million, mainly driven by efficiency improvement and other projects in the UK and Ireland.

- **Other** operating variances not captured elsewhere increased embedded value by USD 82 million. The main positive contribution was in the UK where more accurate accruals for commissions meant writing off provisions no longer needed as well as improved utilization of reinsurance which increased value by USD 42 million in total.

Economic variances

Economic variances arise from the differences between the actual experience during the period and those implied by the economic assumptions at the start of the period. Economic variances also include the impact of changes in assumptions in respect of future economic experience at the end of the period. In total, economic variances increased embedded value by USD 405 million in 2012.

In 2012, both risk free rates and the liquidity premium spread reduced for the major currencies and in particular the euro and the pound sterling. The yields on sovereign debt were volatile across Europe, but spreads have generally reduced over the year. These movements are most significant for spread business and traditional participating business and as a result investment performance was positive in Italy and Portugal. In Switzerland, revaluation of the real estate portfolio had a positive impact. The UK suffered from performance below expectations in their unit-linked funds. Yield curve movements had some negative impacts on the valuation of future profits, most notably in Italy.

Outside Europe, reduced interest rates positively affected the economic variance on protection business in North America and in Asia-Pacific and Middle East.

Other non-operating variances

Other non-operating variances include the impact of legal, tax and regulatory changes in the year as well as other significant one-off items.

Impact on embedded value of other non-operating variances was USD 6 million. Positive impacts in North America and Switzerland were offset by exchange rate impacts from Asia-Pacific and Middle East.

Embedded value report *continued*

6. Acquisitions, capital movements and adjustments

Acquisitions
In 2011, the Group acquired businesses in Malaysia and Latin America. The impact of these transactions has now been included for the first time in the Global Life embedded value as of December 31, 2012.

The life business acquired in Malaysia has been included in the Group consolidated IFRS accounts since December 31, 2011. However this is the first time the embedded value has been reported in Global Life and it has been recorded as a transfer in at the end of the period. Previously the value of this business was included as the unadjusted IFRS net asset value in the non-covered business which was consolidated in the Group MCEV.

In Latin America, the Group acquired a 51 percent stake in the insurance operations of Banco Santander S.A. 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 end of period embedded value of the acquired life business has also been included in the covered business for the first time and recorded as a transfer in at the end of the period. Previously the value of this business was included in the non-covered business as the unadjusted IFRS net asset value and consolidated in the Group MCEV.

The contribution to embedded value net of non-controlling interests from the ZIMB and the Zurich Santander business as of December 31, 2012, was USD 1,160 million. The unadjusted IFRS net asset value of USD 1,422 million corresponding to these businesses has been removed from the non-covered business reported in the Group MCEV in section 11. The new business value of ZIMB and Zurich Santander has not been consolidated in the Global Life new business value 2012 result. The new business value for the year ended December 31, 2012 for these businesses was USD 195 million gross of non-controlling interests.

Dividends and capital movements
Dividends and capital movements reflect dividends paid by Global Life to the Group, shown as a negative number in the table below, and capital received from the Group, shown as a positive number in the table. 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

in USD millions, as of December 31, 2012	Total
North America	(236)
Latin America	864
Europe	(424)
of which:	
United Kingdom	*19*
Germany	*(35)*
Switzerland	*(365)*
Ireland	*13*
Spain	*(48)*
Rest of Europe	*(8)*
Asia-Pacific and Middle East	360
Other	(39)
Global Life	**525**

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, except as noted below.

In Switzerland, the reported statutory capital was reduced by USD 278 million due to an opening accounting adjustment related to the initial consolidation of an investment subsidiary. Although this had no impact on IFRS accounts, this amount was not offset by an increase elsewhere and as a result Group MCEV was reduced. In addition, a dividend of USD 86 million was paid from Switzerland to the Group.

In North America, a dividend of USD 236 million was paid to the Group.

The large capital injections seen in Latin America and Asia-Pacific and Middle East mainly correspond to the inclusion of the Zurich Santander and ZIMB.

Non-controlling interests
The adjustment to embedded value to remove non-controlling interests from new business value is included here and it largely arose from the interests of non-controlling shareholders in Spain and Germany.

Foreign currency translation effects
Foreign currency translation effects represent the impact of adjusting values to end-of-period exchange rates. The weakening of the U.S. dollar against other currencies increased the U.S. dollar embedded value by USD 387 million.

Embedded value report *continued*

7. Value of business in-force

Components of value of business in-force

in USD millions, as of December 31, 2012 and December 31, 2011	2012					2011
	CE[1]	FC[2]	TVFOG[3]	CRNHR[4]	Value of business in-force	Value of business in-force
North America	2,717	(63)	(270)	(264)	**2,120**	**2,208**
Latin America	638	(30)	(21)	(53)	**534**	**267**
Europe	8,621	(409)	(860)	(629)	**6,724**	**5,340**
of which:						
United Kingdom	*3,360*	*(55)*	*(49)*	*(137)*	*3,119*	*2,703*
Germany	*1,503*	*(289)*	*(319)*	*(237)*	*658*	*316*
Switzerland	*2,427*	*(14)*	*(246)*	*(165)*	*2,002*	*1,456*
Ireland	*861*	*(13)*	*(26)*	*(41)*	*781*	*726*
Spain	*71*	*(13)*	*(3)*	*(25)*	*31*	*(18)*
Rest of Europe	*399*	*(25)*	*(217)*	*(24)*	*134*	*157*
Asia-Pacific and Middle East	1,994	(91)	(15)	(122)	**1,766**	**1,512**
Other	231	(4)	–	(12)	**215**	**130**
Global Life	**14,201**	**(597)**	**(1,165)**	**(1,080)**	**11,359**	**9,457**

[1] CE is the certainty equivalent value of business in-force.
[2] FC is the frictional cost.
[3] TVFOG is the time value of financial options and guarantees including the application of a liquidity premium.
[4] CRNHR is the cost of residual non-hedgeable risk (see Section 12 d) for further details).

Maturity profile of value of business in-force

The value in-force (VIF) maturity profile shows when the VIF profits are expected to emerge as free surplus. It does 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.

Maturity profile of value of business in-force

in USD millions, as of December 31	2012		2011	
	VIF	% of Total	VIF	% of Total
1 to 5 years	3,929	35%	3,049	32%
6 to 10 years	2,891	25%	2,393	25%
11 to 15 years	2,111	19%	1,765	19%
16 to 20 years	1,193	11%	998	11%
more than 20 years	1,236	11%	1,252	13%
Total	**11,359**	**100%**	**9,457**	**100%**

The VIF maturity profile shows that 35 percent of the VIF should emerge as free surplus in the next five years and 60 percent within the next ten years.

The increase in the value of business in-force in the next five years is partly due to the inclusion of Zurich Santander, which has a shorter profit signature. See section 6 for further details.

8. Reconciliation of IFRS shareholders' equity to embedded value

Reconciliation of Global Life IFRS shareholders' equity to embedded value

in USD billions, as of December 31, 2012	Total
IFRS shareholders' net assets	**20.0**
Less intangible assets	
Goodwill	*(0.4)*
DAC/DOC	*(15.2)*
Other intangibles & PVP	*(4.4)*
DFEF	*6.1*
Plus IAS 19 Liabilities[1]	0.9
Less non-controlling interests[2]	0.1
Other adjustments[3]	0.4
Embedded value shareholders' net assets	**7.5**
Value of business in force	11.4
Embedded value[4]	**18.9**

[1] Pension scheme liabilities are included in the IFRS equity and not in the embedded value shareholders' net assets.
[2] Primarily includes the Spanish and Santander non-controlling interests.
[3] Other adjustments include tax differences, policyholder share of intangibles, reserving differences and asset valuation differences.
[4] Embedded value includes Zurich Santander and ZIMB. See section 6 for details.

Embedded value report *continued*

9. Sensitivities

Sensitivities[1]

in USD millions, as of December 31, 2012	Change in embedded value	Change in new business value
Embedded value	**18,861**	**890**
Operating sensitivities		
10% increase in initial expenses	n/a	(5%)
10% decrease in maintenance expenses	3%	9%
10% increase in voluntary discontinuance rates	(4%)	(13%)
10% decrease in voluntary discontinuance rates	5%	16%
5% improvement in mortality and morbidity for assurances	3%	12%
5% improvement in mortality for annuities	(1%)	(1%)
Required capital set equal to minimum solvency capital	–	–
Economic sensitivities		
100 basis points increase in risk free yield curve	(2%)	15%
100 basis points decrease in risk free yield curve	2%	(25%)
10% fall in equity market values	(1%)	n/a
10% fall in property market values	(1%)	n/a
25% increase in implied volatilities for risk free yields	(1%)	(2%)
25% decrease in implied volatilities for risk free yields	1%	3%
25% increase in implied volatilities for equities and properties	(1%)	(3%)
25% decrease in implied volatilities for equities and properties	1%	2%

[1] Base for sensitivities is without liquidity premium. Changes in embedded value and new business value are calculated on the basis of no liquidity premium and end of period assumptions. This reduces the above embedded value by USD 792 million and new business value by USD 91 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 the investment of net cash flows.

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 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	**2012**	2011
Shareholders' net assets	0.7	0.5
Value of business in-force	0.1	0.2
Embedded value	**0.8**	**0.7**

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 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, 2012	Covered business MCEV	Non-covered business	Total Group MCEV
Opening Group MCEV	**15.8**	**17.2**	**33.1**
Operating MCEV earnings[1]	1.7	2.7	4.4
Non-operating MCEV earnings	0.4	0.0	0.4
Total MCEV Earnings	2.1	2.7	4.8
Other movements in IFRS net equity[2]	(0.0)	0.5	0.4
Adjustments[3]	0.9	(3.8)	(2.9)
Closing Group MCEV[4]	**18.9**	**16.5**	**35.4**

[1] For non-covered business this is set equal to the Net Income After Tax (NIAT) over the period.
[2] For non-covered business this is set equal to non-controlling interests and the change in Other Comprehensive Income (OCI) and unrealised gains and losses excluding the foreign currency translation adjustment over the period.
[3] Adjustments refer to opening adjustments, dividend and capital movements and foreign currency translation effects.
[4] As of December 31, 2012 the ZIMB and Zurich Santander businesses are included in the covered business, whereas previously they were included in non-covered business. See section 6 for further details.

12. Embedded value methodology

The Group has applied the Market Consistent Embedded Value (MCEV) Principles and Guidance 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. 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.

All amounts shown in USD are rounded with the consequence that the rounded amounts may not add to the rounded total in all instances.

a) Covered business

Covered business includes all business written by companies that are included in the Global Life segment, 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 embedded value is approximately 2 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.

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.

Embedded value report *continued*

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, the FC represents 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 FC value is included both in the value of business in-force and in the new business value. For new business, FC is 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 CE 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 after 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 1,000 stochastic economic simulations from the CE 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 TVFOG 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 CE 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 CE value or the TVFOG, 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 2000 shocks to the embedded value assumptions. To align with the MCEV Principles the risk based capital is scaled to a 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 of 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 which does not allow for diversification benefits between covered and non-covered business. The embedded value report does allow for diversification between covered and non-covered business, which is consistent with the management view of the business and adds an estimated USD 508 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. 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 determined quarterly. For each quarter new business model points are scaled to the expected APE in the quarter.

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, euro, 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. Further details are set out under "Economic assumptions" in Section 13.

h) Economic scenario generator

All operations use actual yield curves observable as of 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

Headquarters' costs are recharged to covered business in the relevant countries based on contractual framework and included in the projected expenses. Costs not recharged are small and have been excluded from the projected assumptions.

j) Holding companies

Holding companies 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 reinsurance arrangement exists between two life companies within Global Life, the value of the reinsurance 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 892 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 when they occur.

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 and 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 audited Consolidated financial statements as of December 31, 2012.

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 actuarial 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 actuarial 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 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.

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, reference has been made to FINMA's published rate.

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 are equal to the 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.

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. 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 variances 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, Headquarters' 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 12 n) for pension scheme liabilities under IAS 19 and no allowance is made in the expense assumptions for any contributions as a result of past service benefits.

No allowance has been made for future productivity improvements in the expense assumptions.

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".

Embedded value report *continued*

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.

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Appendix

Embedded value results Global Life, by region

in USD millions, for the years ended December 31	North America	
	2012	2011
Embedded value information:		
Opening embedded value	**2,780**	2,818
Dividends and capital movements start of period	(109)	(35)
New business value Global Life	109	60
Expected contribution	171	125
Operating experience variances	(24)	(18)
Operating assumption changes	(113)	86
Other operating variances	(221)	(28)
Operating earnings	**(79)**	226
Economic variances	99	(26)
Other non-operating variances	30	(4)
Embedded value earnings	**50**	196
Dividends and capital movements end of period	(127)	(198)
Non-controlling interests	–	–
Foreign currency translation effects	–	–
Closing embedded value	**2,594**	2,780
New business information:		
Annual premiums	110	90
Single premiums	154	211
Annual premium equivalent (APE)	125	111
Present value of new business premiums (PVNBP)	1,227	1,024
New business value	**109**	60
New business margin (% of APE)	87.1%	54.3%
New business margin (% of PVNBP)	8.9%	5.9%
Returns		
Expected return	6.4%	4.5%
Operating return	(3.0%)	8.1%
Embedded value return	1.9%	7.0%

Latin America		Europe		Asia-Pacific and Middle East		Other		Global Life	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
683	631	**9,701**	10,334	**2,465**	2,548	**217**	142	**15,846**	16,472
(5)	(14)	(365)	(464)	(11)	(7)	(45)	(5)	(534)	(525)
99	71	453	547	125	136	103	167	890	980
31	34	658	482	93	98	2	–	954	740
(20)	(21)	(124)	23	(50)	(34)	(2)	(14)	(220)	(63)
(14)	15	(102)	(32)	(4)	(202)	6	(18)	(226)	(151)
(22)	11	593	(67)	(16)	(23)	8	(35)	342	(143)
75	108	**1,477**	953	**148**	(25)	**117**	100	**1,739**	1,363
(11)	28	224	(1,289)	86	(31)	7	(3)	405	(1,322)
(2)	(5)	37	173	(62)	–	3	(5)	6	160
62	131	**1,738**	(163)	**172**	(56)	**127**	92	**2,150**	200
869	1	(59)	174	371	(33)	6	2	1,059	(55)
(2)	(1)	(44)	(53)	–	–	–	–	(46)	(54)
7	(66)	326	(126)	46	12	7	(14)	387	(194)
1,615	683	**11,298**	9,701	**3,043**	2,465	**312**	217	**18,861**	15,846
704	262	1,374	1,475	403	446	86	107	2,677	2,379
517	506	11,642	14,082	608	784	605	541	13,527	16,125
755	313	2,538	2,883	464	524	147	161	4,030	3,992
2,458	1,320	26,998	26,784	3,058	2,943	1,554	1,328	35,296	33,399
99	71	**453**	547	**125**	136	**103**	167	**890**	980
13.2%	22.6%	17.9%	19.0%	26.9%	25.9%	70.1%	103.7%	22.1%	24.5%
4.0%	5.3%	1.7%	2.0%	4.1%	4.6%	6.6%	12.5%	2.5%	2.9%
4.5%	5.4%	7.0%	4.9%	3.8%	3.9%	1.0%	0.4%	6.2%	4.6%
11.1%	17.6%	15.8%	9.7%	6.0%	(1.0%)	68.2%	73.2%	11.4%	8.5%
9.2%	21.3%	18.6%	(1.7%)	7.0%	(2.2%)	74.2%	67.2%	14.0%	1.3%

Appendix *continued*

Embedded value results Europe

in USD millions, for the years ended December 31

	United Kingdom		Germany	
	2012	2011	**2012**	2011
Embedded value information:				
Opening embedded value	**3,692**	3,633	**2,058**	2,047
Dividends and capital movements start of period	6	(344)	(1)	31
New business value Global Life	195	154	37	171
Expected contribution	176	116	236	103
Operating experience variances	(52)	87	2	(2)
Operating assumption changes	(29)	(74)	(28)	43
Other operating variances	197	(1)	286	151
Operating earnings	**488**	282	**533**	466
Economic variances	(269)	(105)	(14)	(306)
Other non-operating variances	17	189	1	–
Embedded value earnings	**236**	365	**521**	160
Dividends and capital movements end of period	13	54	(34)	(105)
Non-controlling interests	–	–	(1)	(5)
Foreign currency translation effects	183	(17)	47	(70)
Closing embedded value	**4,130**	3,692	**2,589**	2,058
New business information:				
Annual premiums	583	554	382	493
Single premiums	6,117	6,814	707	950
Annual premium equivalent (APE)	1,194	1,235	453	588
Present value of new business premiums (PVNBP)	14,112	11,830	4,503	5,530
New business value	**195**	154	**37**	171
New business margin (% of APE)	16.4%	12.5%	8.2%	29.1%
New business margin (% of PVNBP)	1.4%	1.3%	0.8%	3.1%
Returns				
Expected return	4.8%	3.5%	11.5%	5.0%
Operating return	13.2%	8.6%	25.9%	22.4%
Embedded value return	6.4%	11.1%	25.3%	7.7%

Europe									
Switzerland		Ireland		Spain		Rest of Europe		Europe total	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
2,126	2,323	**1,156**	1,256	**164**	279	**506**	794	**9,701**	10,334
(355)	(162)	13	–	(19)	–	(8)	11	(365)	(464)
25	9	66	67	94	107	36	38	453	547
166	143	22	25	17	36	40	58	658	482
(5)	(4)	(51)	(58)	(18)	(1)	–	1	(124)	23
(13)	19	(49)	(7)	2	(31)	14	17	(102)	(32)
79	(71)	(26)	(77)	126	4	(70)	(73)	593	(67)
253	96	**(38)**	(49)	**222**	117	**19**	42	**1,477**	953
192	(128)	52	(43)	(18)	(193)	280	(514)	224	(1,289)
24	(6)	–	–	(1)	31	(5)	(41)	37	173
470	(38)	**14**	(93)	**203**	(45)	**294**	(513)	**1,738**	(163)
(10)	–	–	28	(29)	(23)	–	219	(59)	174
–	–	–	–	(43)	(47)	–	–	(44)	(53)
55	3	20	(35)	6	(1)	16	(6)	326	(126)
2,286	2,126	**1,204**	1,156	**281**	164	**808**	506	**11,298**	9,701
107	88	116	125	69	93	116	122	1,374	1,475
1,127	630	2,388	2,054	803	2,733	501	901	11,642	14,082
220	151	355	331	149	367	167	212	2,538	2,883
2,544	1,593	3,033	2,720	1,335	3,328	1,471	1,782	26,998	26,784
25	9	**66**	67	**94**	107	**36**	38	**453**	547
11.5%	6.0%	18.5%	20.2%	62.9%	29.2%	21.5%	18.0%	17.9%	19.0%
1.0%	0.6%	2.2%	2.5%	7.0%	3.2%	2.4%	2.1%	1.7%	2.0%
9.4%	6.6%	1.9%	2.0%	11.9%	13.0%	8.0%	7.3%	7.0%	4.9%
14.3%	4.4%	(3.2%)	(3.9%)	153.6%	41.7%	3.8%	5.2%	15.8%	9.7%
26.5%	(1.8%)	1.2%	(7.4%)	140.6%	(16.0%)	59.2%	(63.7%)	18.6%	(1.7%)

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 Insurance Group Ltd

We have audited the Embedded Value Report ("EV Report") of Zurich Insurance Group Ltd included on pages 289 to 324 of the Annual Report 2012, for the year ended December 31, 2012. 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 309 to 314.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the EV Report in accordance with the MCEV Principles and Guidance, including the applied methodology and the assumptions used and for such internal controls as determined necessary to enable the preparation of the EV Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the EV Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the EV Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the EV Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the EV Report 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 controls. An audit also includes evaluating the appropriateness of the principles used and the reasonableness of significant estimates made, as well as evaluating the adequacy of the overall presentation of the EV Report.

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 EV Report of Zurich Insurance Group Ltd for the year ended December 31, 2012 is prepared, in all material respects, in accordance with the MCEV Principles and Guidance.

Basis of preparation

Without modifying our opinion, we draw attention to sections 12 and 13 of the EV Report, which describe the basis of the EV methodology and assumptions. The EV Report is prepared to assist Zurich Insurance Group Ltd to comply with the MCEV Principles and Guidance referred to above. As a result, the EV Report may not be suitable for another purpose. This report does not extend to any financial statements of Zurich Insurance Group Ltd.

PricewaterhouseCoopers Ltd

Richard Burger Audit expert	Stephen O'Hearn Global relationship partner

Zurich, February 13, 2013

Holding company

Principal activity and review of the year

Zurich Insurance Group Ltd was incorporated on April 26, 2000, and is the holding company for the Zurich Insurance 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 2,382 million compared with CHF 961 million in 2011. The increase was mainly driven by higher dividend income from its subsidiary Zurich Insurance Company Ltd which paid an ordinary dividend of CHF 2,400 million in 2012, compared with an extra-ordinary dividend payment of CHF 1,500 million in 2011, and by lower other financial expenses in 2012 as compared with 2011. In 2012, other financial expenses of CHF 191 million included impairments on investments in subsidiaries of CHF 75 million, compared with CHF 800 million other financial expenses for 2011, primarily driven by impairments related to the redemption of the three remaining series of Trust Capital Securities issued through the Zurich RegCaPS Funding Trusts of CHF 435 million and impairments on investments in subisidaries of CHF 256 million.

The Annual General Meeting on March 29, 2012, approved a gross dividend of CHF 17.00 per share to be paid free of Swiss withholding tax to the shareholders out of the capital contribution reserve.

Shareholders' equity increased by CHF 89 million to CHF 16,699 million as of December 31, 2012, from CHF 16,610 million as of December 31, 2011, as a result of the net income after taxes for the year and capital contributed through the issuance of new shares to employees out of the contingent capital, which was partially offset by the dividend paid in 2012. The Board will propose a dividend from the capital contribution reserve of CHF 17.00 per share in respect of the year 2012 for approval at the Annual General Meeting to be held on April 4, 2013.

Income statements

in CHF thousands, for the years ended December 31	Notes	**2012**	2011
Revenues			
Interest income	3	100,581	241,003
Dividend income		2,400,000	1,521,569
Other financial income	4	79,495	100,735
Other income	5	18,690	110
Total revenues		2,598,766	1,863,417
Expenses			
Administrative expense	6	(19,365)	(94,927)
Other financial expense	7	(190,330)	(800,204)
Tax expense	8	(6,934)	(7,600)
Total expenses		(216,629)	(902,731)
Net income after taxes		**2,382,137**	**960,686**

Holding company *continued*

Balance sheets

Assets

in CHF thousands, as of December 31	Notes	2012	2011
Non-current assets			
Investments in subsidiaries	9	11,779,569	11,854,569
Subordinated loans to subsidiaries	10	4,877,074	4,876,097
Total non-current assets		16,656,643	16,730,666
Current assets			
Cash and cash equivalents		12,786	13,432
Loans to subsidiaries		646,367	491,300
Receivables from third parties		808	856
Accrued income from third parties		14	14
Accrued income from subsidiaries		306	207,579
Derivatives with subsidiaries		–	4,084
Total current assets		660,281	717,265
Total assets		**17,316,924**	**17,447,931**

Liabilities and shareholders' equity

in CHF thousands, as of December 31	Notes	2012	2011
Short-term liabilities			
Loans from subsidiaries		–	202,794
Other liabilities to subsidiaries		668	–
Other liabilities to third parties		865	1,511
Other liabilities to shareholders		607	377
Accrued liabilities to subsidiaries		14,227	14,578
Accrued liabilities to third parties		63,622	49,713
Derivatives with subsidiaries		3,065	3,315
Total short-term liabilities		83,054	272,288
Long-term liabilities			
Long-term loans from subsidiaries		479,029	490,834
Provisions		56,067	75,008
Total long-term liabilities		535,096	565,842
Total liabilities		618,150	838,130
Shareholders' equity (before appropriation of available earnings)			
Share capital	12	14,830	14,739
Legal reserves:		11,029,552	13,322,807
Capital contribution reserve	*13*	*10,688,412*	*12,981,667*
General capital contribution reserve		*10,359,588*	*12,646,757*
Reserve for treasury shares	*14*	*328,824*	*334,910*
General legal reserve		*341,140*	*341,140*
Free reserve:			
As of January 1		*332,986*	*332,986*
Transfer from capital contribution reserve		*2,494,314*	*2,479,883*
Dividends paid		*(2,494,314)*[1]	*(2,479,883)*[2]
Free reserve, as of December 31		332,986	332,986
Retained earnings:			
As of January 1		*2,939,269*	*3,254,285*
Transfer to capital contribution reserve		–	*(1,275,702)*
Adjusted for appropriations		*2,939,269*	*1,978,583*
Net income after taxes		2,382,137	960,686
Retained earnings, as of December 31		5,321,406	2,939,269
Total shareholders' equity (before appropriation of available earnings)		16,698,774	16,609,801
Total liabilities and shareholders' equity		**17,316,924**	**17,447,931**

[1] Dividends paid in the year, proposed in respect of the 2011 result
[2] Dividends paid in the year, proposed in respect of the 2010 result

Notes to the financial statements

1. Basis of Presentation

Zurich Insurance Group 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. Interest income

Interest income is earned mainly on the Company's subordinated loan of CHF 4,832 million with its subsidiary Zurich Insurance Company Ltd. The decrease of CHF 140 million compared to 2011 is the result of lower interest earned for 2012 on this loan.

4. Other financial income

Other financial income includes primarily foreign exchange gains and net gains on derivatives with subsidiaries.

5. Other income

Other income for 2012 represents the partial release of CHF 18.7 million of the irrevocable commitment made by the Company on behalf of the Zurich Insurance Group to the Z Zurich Foundation in 2011, as an other Group company made the 2012 payment.

6. Administrative expense

Administrative expense includes directors' fees of CHF 4.1 million for both years ended December 31, 2012 and 2011 and overhead expenses of CHF 10.0 million for for both years ended December 31, 2012 and 2011. 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 Insurance Group to the Z Zurich Foundation to fund its charitable activities.

7. Other financial expense

Other financial expense includes impairments on investments in subsidiaries of CHF 75 million in 2012 and CHF 256 million in 2011. Additionally, 2011 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.

8. Tax expense

The tax expense consists of income, capital and other taxes.

Holding company *continued*

9. Investments in subsidiaries

Investment in subsidiaries

as of December 31	2012		2011	
	Carrying value[1]	**Voting rights in %**	Carrying value[1]	Voting rights in %
Zurich Insurance Company Ltd	11,088,466	100.00	11,088,466	100.00
Zurich Financial Services EUB Holdings Ltd	532,936	99.90	607,936	99.90
Farmers Group, Inc.	157,992	12.10	157,992	12.10
Allied Zurich Limited	175	100.00	175	100.00
Total	**11,779,569**		**11,854,569**	

[1] in CHF thousands

The investment in Zurich Financial Services EUB Holdings Limited was impaired by CHF 75 million in 2012 compared with CHF 256 million in the previous year.

10. Subordinated loans to subsidiaries

Subordinated loans have remained unchaged in local currency compared with 2011, and mainly include loans to Zurich Insurance Company Ltd of CHF 4,832 million as of December 31, 2012 and 2011.

11. Commitments and contingencies

Zurich Insurance Group Ltd has provided unlimited guarantees in support of various entities belonging to the Zurich Capital Markets group of companies. The Company has also entered into various support agreements and guarantees for the benefit of certain of its subsidiaries and their directors. These contingencies and commitments amounted to CHF 11,587 million as of December 31, 2012, and CHF 11,894 million as of December 31, 2011. CHF 8,331 million out of the total CHF 11,587 million relate to guarantees in the aggregate of GBP 5,595 million provided to a fully owned subsidiary and certain 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 Insurance Group Ltd (formerly known as Zurich Financial Services Ltd) in December 2009. These guarantees will expire in August 2015. Furthermore, the Zurich Insurance Group 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 Insurance Group Ltd knows of no event that would require it to satisfy any of these guarantees or to take action under a support agreement.

12. Shareholders' equity

a) Issued share capital

In 2012, there was no change to the ordinary share capital. At the Annual General Meeting on March 29, 2012, the shareholders approved an extension of authorized share capital with the number of shares remaining unchanged at 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each until March 29, 2014. In 2011, there were no changes to the ordinary share capital or to the authorized share capital.

During the years 2012 and 2011, a total of 914,301 shares and 798,926 shares, respectively, were issued to employees out of the contingent capital.

b) Authorized share capital

Until March 29, 2014, the Board of Directors of Zurich Insurance Group 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 of Directors 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 of Directors 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 of Directors 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 of Directors 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 Insurance Group 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 Insurance Group 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 of Directors.

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 of Directors, 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 Insurance Group Ltd the quoted share price is to be used as a basis.

Employee participation

On January 1, 2011, the contingent share capital, to be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 470,836.30 or 4,708,363 fully paid registered shares with a nominal value of CHF 0.10 each. On January 1, 2012, the contingent share capital, to be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 390,943.70 or 3,909,437 fully paid registered shares with a nominal value of CHF 0.10 each.

During 2012 and 2011, 914,301 shares and 798,926 shares, respectively, were issued to employees out of the contingent share capital. Of the total 914,301 registered shares issued to employees during the year 2012, 693,429 shares were issued in the period from January 1, 2012 to March 31, 2012 and 220,872 registered shares were issued as from April 1, 2012, to December 31, 2012. As a result, on December 31, 2012 and 2011, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 299,513.60 and CHF 390,943.70 or 2,995,136 and 3,909,437 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*

13. Capital contribution reserve

Capital contribution reserve

in CHF thousands	2012	2011
As of January 1	12,981,667	14,000,000
Appropriation of available earnings		
Transfer from retained earnings	–	*1,275,702*
Transfer to free reserve for dividend payment	*(2,494,314)*	*(2,479,883)*
Agio on share-based payment transactions	200,631	185,848
Subscription rights out of capital increase 2002	428	–
As of December 31	**10,688,412**[1]	**12,981,667**

[1] Of this amount CHF 4,037 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.

14. Capital contribution reserve (reserve for treasury shares)

This reserve corresponds to the purchase value of all Zurich Insurance Group Ltd shares held by companies in the Zurich Insurance Group as shown in the table below.

Capital contribution reserve (reserve for treasury shares)

	Number of shares 2012	Purchase value 2012[1]	Number of shares 2011	Purchase value 2011[1]
As of January 1	1,373,392	334,910	1,399,080	341,140
Additions during the year	120	19	100	20
Sales during the year	(25,117)	(6,105)	(25,788)	(6,250)
As of December 31	**1,348,395**	**328,824**	**1,373,392**	**334,910**
Average purchase price of additions, in CHF		155		199
Average selling price, in CHF		229		256

[1] in CHF thousands

15. Shareholders

The shares registered in the share ledger as of December 31, 2012, were owned by 124,847 shareholders of which 119,238 were private individuals holding 24.7 percent of the shares (or 15.3 percent of all outstanding shares), 2,015 were foundations and pension funds holding 7.2 percent of the shares (or 4.5 percent of all outstanding shares), and 3,594 were other legal entities holding 68.1 percent of the shares (or 42.3 percent of all outstanding shares).

According to the information available on December 31, 2012, Zurich Insurance Group Ltd is not aware of any person or institution, other than BlackRock, Inc., New York, and Norges Bank, Oslo, which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group 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 18.

16. Information on the risk assessment process

Refer to the disclosures in the Risk review on pages 111 to 161 of this Annual Report.

17. 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 56 to 81 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 Insurance Group Ltd, the holding company of the Group, and Zurich Insurance Company Ltd is paid entirely by Zurich Insurance Group 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 Insurance Group 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. The remuneration paid to the members of the Board is designated in Swiss francs. The remuneration of the members of the GEC is paid in local currency and therefore year-on-year comparisons are affected by movements in exchange rates.

Remuneration of Directors

The following tables set out the total fees paid to Directors of Zurich Insurance Group 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 Insurance Group Ltd and Zurich Insurance Company Ltd. In addition, Mr. de Swaan is a member of the Board of both ZIP and ZLAP and Mrs. Bies and Mr. Nicolaisen are members of the Board in ZHCA. The fee structure for Directors was reviewed and no changes were made for 2012. The fees are set out in the Remuneration report on page 69.

A fixed portion of the fee continues to be allocated towards the provision of three-year sales-restricted Zurich Insurance Group Ltd shares. The portion for the Chairman was set at CHF 333,500 for both years ended December 31, 2012 and 2011, and the portion for the other members of the Board of Directors at CHF 80,000 for both years ended December 31, 2012 and 2011. The overall fees are set out in the following tables:

Directors' fees 2012

in CHF	2012[1]						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fee[7]	Total fees	Of which paid in cash[5]	Of which allocated in shares[4,5]
J. Ackermann, Chairman[6,9]	846,198	–	–	–	846,198	563,399	282,799
M. Gentz, Chairman[6,9]	243,170	–	–	–	243,170	243,170	–
T. de Swaan, Vice Chairman[6,9]	342,172	12,159	7,295	85,000	446,626	332,569	114,057
S. Bies, Member	240,000	50,000	–	50,000	340,000	260,000	80,000
A. Carnwath, Member[9]	181,202	37,705	–	–	218,907	158,361	60,546
V.L.L. Chu, Member	240,000	50,000	–	–	290,000	210,000	80,000
R. del Pino, Member[9]	181,202	37,705	–	–	218,907	158,361	60,546
Th. Escher, Member	240,000	50,000	22,623	–	312,623	232,623	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	380,000	300,000	80,000
V.L. Sankey, Member[9]	58,361	12,159	7,295	–	77,815	77,815	–
R. Watter, Member	240,000	50,000	–	–	290,000	210,000	80,000
Total in CHF[8]	**3,532,305**	**449,728**	**77,213**	**185,000**	**4,244,246**	**3,166,298**	**1,077,948**
Total in USD[10]	**3,797,932**	**483,547**	**83,019**	**198,912**	**4,563,411**	**3,404,402**	**1,159,009**

Financial information

Holding company *continued*

Directors' fees 2011

in CHF	2011[1]						
	Basic fee	Committee fee[2]	Chair fee[3]	Other fee[7]	Total fees	Of which paid in cash[5]	Of which allocated in shares[4, 11]
M. Gentz, Chairman[6]	1,000,000	–	–	–	1,000,000	666,500	333,500
J. Ackermann, Vice-Chairman[6]	375,000	–	–	–	375,000	250,000	125,000
S. Bies, Member	240,000	50,000	–	50,000	340,000	260,000	80,000
V.L.L. 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	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	392,500	312,500	80,000
R. Watter, Member	240,000	50,000	–	–	290,000	210,000	80,000
Total in CHF[8]	**3,535,000**	**450,000**	**100,000**	**172,500**	**4,257,500**	**3,079,000**	**1,178,500**
Total in USD[10]	**3,954,360**	**503,384**	**111,863**	**192,964**	**4,762,571**	**3,444,264**	**1,318,306**

[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 (CHF 50,000 in 2011) 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 26.
[3] Committee chairs receive an annual fee of CHF 30,000 (CHF 30,000 in 2011) and the chair of the Audit Committee receives an additional CHF 10,000 (CHF 10,000 in 2011). The committees on which the Directors serve and the chairs are set out in the Corporate governance report on page 26.
[4] The shares allocated to the Directors are sales-restricted for three years.
[5] As of June 16, 2012, Mr. Ackermann was allocated 1,365 shares, Mr. de Swaan was allocated 550 shares, and the other Board members were allocated 386 shares based on a full year's membership. The share price (CHF 207.10) as of June 16, 2012 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.
[6] Neither the Chairman nor the Vice-Chairman receive any additional fees for their committee work.
[7] In addition to the fees received as Directors of Zurich Insurance Company Ltd, Mrs. Bies, Mr. Nicolaisen and Mr. de Swaan earned fees for their board memberships of the following of Zurich Insurance Group companies:
– In both 2012 and 2011, Mrs. Bies and Mr. Nicolaisen earned CHF 50,000 for their membership of the board of Zurich Holding Company of America (ZHCA).
– In 2012, Mr. de Swaan earned CHF 75,000 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 2011, Mr. de Swaan earned CHF 72,500 in respect for his work on the two boards.
[8] In line with applicable laws, Zurich paid the company-related portion of contributions to social security systems, which amounted to CHF 160,340 in 2012. The corresponding contributions amounted to CHF 142,832 in 2011. Any personal contributions of the Directors to social security systems are included in the amounts shown in the table above.
[9] At the Annual General Meeting on March 29, 2012 Mr. Gentz and Mr. Sankey retired from the Board and Ms. Carnwath and Mr. del Pino were elected to the Board. Mr. Ackermann was appointed Chairman and Mr. de Swaan Vice-Chairman of the Board of Directors.
[10] The amounts have been translated from Swiss francs to US dollars at the relevant exchange rates throughout the year.
[11] 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 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.

At the Annual General Meeting on March 29, 2012, the terms of office of Mr. Gentz and of Mr. Sankey expired and they did not stand for re-election. No termination payments (i.e. "golden parachutes") were made and no other benefits such as waiver of lock-up periods for equities, shorter vesting periods or additional contributions to occupational pension schemes were provided. Ms. Carnwath and Mr. del Pino were elected new members of the Board of Directors. No special payments (i.e. "golden handshakes") or other benefits were provided.

Except for Mr. Watter none of the Directors had outstanding loans, advances or credits as of December 31, 2012 or 2011. 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, 2012 and 2011. 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 2012 or during the year 2011. Neither had any former member of the Board outstanding loans, advances or credits as of December 31, 2012 or 2011.

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 2012, nor during the year 2011. Neither had any related party of the Directors or of former members of the Board outstanding loans, advances or credits as of December 31, 2012 or 2011.

Remuneration of Group Executive Committee

The total remuneration of the members of the GEC for 2012 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 2012 and is calculated based on the same methodology as in 2011. 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	**2012[2]**	2011[3]
Base salaries	11.30	11.20
Cash incentive awards earned for the year	11.20	12.70
Value of target performance share grants[4]	15.20	15.50
Service costs for pension benefits[5]	3.10	3.00
Value of other remuneration[6]	1.80	3.00
Total in CHF million[7]	**42.60**	**45.40**
Total in USD million[8]	**46.40**	**50.30**

[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 13 GEC members, of whom 9 served during the full year 2012.
[3] On the basis of 12 GEC members, of whom 9 served during the full year 2011.
[4] The share grants will vest in the future according to achievement of defined performance conditions. The value of the shares assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the target performance share grants based on the share price of the day prior to the grants (CHF 225.90 for 2012 and CHF 243.60 for 2011).
[5] The amounts reflect the total value of pension benefits accruing to members of the GEC during 2012 and 2011, 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.
[6] Includes employee benefits, expatriate allowances, perquisites, benefits-in-kind and any other payments due under employment contracts. Benefits-in-kind have been valued using market rates.
[7] In line with applicable laws where the executives are employed, Zurich Insurance Group Ltd paid the company-related portion of contributions to social security systems, which amounted to USD 1.7 million in 2012 and USD 2.2 million in 2011. 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.
[8] The amounts have been translated to US dollars at the relevant exchange rates throughout the year and the cash incentive to be paid in 2013 has been translated at the year-end rate in 2012.

Holding company *continued*

Highest paid executive, Chief Executive Officer, Martin Senn

in CHF millions[1], for the year ended December 31	2012	2011
Base salary	1.60	1.60
Cash incentive awards earned for the year	2.00	2.40
Value of target performance share grants[2]	3.60	3.60
Service costs for pension benefits[3]	0.30	0.20
Value of other remuneration[4]	0.10	0.10
Total in CHF million	**7.60**	**7.90**
Total in USD million[5]	**8.30**	**8.60**

[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 share grants will vest in the future according to the achievement of defined performance conditions. The value of the shares assumes that the grant will vest in the future at 100 percent of the target level with the valuation of the target performance share grants based on the share price on the day prior to the grants (CHF 225.90 for 2012 and CHF 243.60 for 2011).
[3] The amounts reflect the total value of pension benefits, calculated on the basis of the service costs for the company as assessed under IAS 19 accounting principles. Service costs value the amount of the pension benefits accruing during the year and for defined contribution plans takes the amount of the company contribution paid during the year. Service costs do not include the interest costs on accrued benefits, adjustments for actuarial gains and losses, nor the expected return on any assets held.
[4] 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.
[5] 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 2013 has been translated at the year-end rate in 2012.

As of December 31, 2012 and 2011, there were no loans, advances or credits outstanding from GEC members.

During 2012, two members of the GEC left the Group. Agreements with the departing members provided remuneration in accordance with their employment contracts. No termination payments (i.e. "golden parachutes") were made and no other benefits such as agreements concerning special notice periods or longer term contracts (exceeding 12 months in duration), waiver of lock-up periods for equities, shorter vesting periods or additional contributions to occupational pension schemes were provided. As described in the 2010 report a member who retired at the end of 2010, after long service with the Group, was retained as a consultant in 2011 and 2012. Recognizing the prior contractual obligations, adherence to postemployment obligations and the provision of services in 2012 the member received remuneration in the amount of USD 2.4 million during 2012. No other former members of the GEC received remuneration in 2012. In addition, as of December 31, 2012 and 2011 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 2012 or 2011. Neither had any related party of GEC members or of former members of the GEC outstanding loans, advances or credits as of December 31, 2012 or 2011.

18. 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 GEC, who held office at December 31, 2012 and 2011, 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 56 to 81 of the Annual Report in which additional details can be found.

Shareholdings of Directors

Shareholdings of Directors

Number of Zurich Insurance Group Ltd shares [1], as of December 31	Ownership of shares	
	2012	2011
J. Ackermann, Chairman	23,271	806
M. Gentz, Chairman	n/a	6,868
T. de Swaan, Vice-Chairman	2,079	1,529
S. Bies, Member	1,632	1,246
A. Carnwath, Member	292	n/a
V.L.L. Chu, Member	1,632	1,246
R. del Pino, Member	292	n/a
Th. Escher, Member	9,470	7,084
F. Kindle, Member	16,915	16,529
A. Meyer, Member	3,239	2,853
D. Nicolaisen, Member	1,915	1,529
V.L. Sankey, Member	n/a	2,699
R. Watter, Member	4,883	4,497
Total	**65,620**	**46,886**

[1] None of the Directors together with parties related to them held more than 0.5 percent of the voting rights of Zurich Insurance Group Ltd shares as of December 31, 2012 or 2011, 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 Insurance Group Ltd shares as of December 31, 2012 or 2011.

Share and share option holdings of the members of the GEC

The following table sets out the actual share and share option holdings of the members of the GEC as of December 31, 2012 and 2011. 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 Insurance Group Ltd shares or share options held by parties related to the members of the GEC. 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	**2012**		2011	
	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	29,719	103,447	20,936	81,362
J. Dailey, CEO of Farmers Group, Inc.[3]	2,373	14,987	n/a	n/a
M. Foley, Chief Executive Officer North America Commercial and Regional Chairman of the Americas	9,306	52,710	9,726	41,348
M. Greco, Chief Executive Officer General Insurance[4]	n/a	n/a	7,847	36,885
Y. Hausmann, Group General Councel[5]	3,728	7,301	n/a	n/a
K. Hogan, Chief Executive Officer Global Life	3,080	13,032	1,466	8,185
M. Kerner, CEO General Insurance[6]	8,469	24,432	n/a	n/a
A. Lehmann, Chief Risk Officer and Regional Chairman of Europe	23,128	84,640	18,671	86,713
C. Orator, Chief Administrative Officer[7]	n/a	n/a	5,868	12,987
C. Reyes, Chief Investment Officer	4,823	22,012	2,555	15,123
G. Riddell, Regional Chairman of Asia-Pacific & Middle East	25,002	73,136	22,182	62,685
K. Terryn, Group Head of Operations	4,324	20,540	2,239	16,391
P. Wauthier, Chief Financial Officer	4,947	23,283	3,936	25,061
	118,899	**439,520**	**95,426**	**386,740**

[1] None of the GEC members together with parties related to them held more than 0.5 percent of the voting rights of Zurich Insurance Group Ltd shares as of December 31, 2012 or 2011, respectively, 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. Dailey was appointed to the GEC as of January 1, 2012.
[4] Mr. Greco left the function on June 4, 2012 and his employment contract terminated on July 31, 2012.
[5] Mr. Hausmann was appointed to the GEC as of July 1, 2012.
[6] Mr. Kerner was appointed to the GEC as of September 1, 2012.
[7] Mr. Orator left the function on June 30, 2012 and his employment contract terminated on December 31, 2012.

The following tables show how the totals of vested share options owned by members of the GEC as of December 31, 2012 and 2011, are distributed according to the grants identified in the tables "Summary of outstanding options."

Distribution of vested share options 2012

Number of vested share options as of December 31, 2012				Year of grant		Total
	2010	2009	2008	2007	2006	
M. Senn	39,316	16,035	17,094	19,200	11,802	103,447
J. Dailey[1]	6,613	3,284	5,090	–	–	14,987
M. Foley	16,907	13,640	11,568	10,595	–	52,710
Y. Hausmann[2]	7,301	–	–	–	–	7,301
K. Hogan	7,212	5,820	–	–	–	13,032
M. Kerner[3]	5,471	4,414	4,210	5,327	5,010	24,432
A. Lehmann	21,063	16,035	17,094	17,028	13,420	84,640
C. Reyes	14,041	2,115	2,256	1,950	1,650	22,012
G. Riddell	15,734	12,255	14,330	18,623	12,194	73,136
K. Terryn	6,290	4,789	3,624	3,108	2,729	20,540
P. Wauthier	5,701	4,341	4,627	4,675	3,939	23,283
Total	**145,649**	**82,728**	**79,893**	**80,506**	**50,744**	**439,520**

[1] Mr. Dailey was appointed to the GEC as of January 1, 2012.
[2] Mr. Hausmann was appointed to the GEC as of July 1, 2012.
[3] Mr. Kerner was appointed to the GEC as of September 1, 2012.

Distribution of vested share options 2011

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[1]	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. Wauthier was appointed to the GEC as of October 1, 2011.

The following tables set out additional details of the options outstanding for members of the GEC as at December 31, 2012 and 2011, respectively. Further details can be found in the unaudited Remuneration report, pages 56 to 81.

Holding company *continued*

Summary of outstanding options, 2012

as of December 31, 2012

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	145,649	59,453	205,102	259.90	2017
2009	82,728	–	82,728	198.10	2016
2008	79,893	–	79,893	336.50	2015
2007	80,506	–	80,506	355.75	2014
2006	50,744	–	50,744	308.00	2013
Total	**439,520**	**59,453**	**498,973**		

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**		

Proposed appropriation of available earnings and capital contribution reserve

as of December 31	2012	2011
Registered shares eligible for dividends		
Eligible shares	148,300,123	147,385,822

in CHF thousands	2012	2011
Appropriation of available earnings as proposed by the Board of Directors		
Net income after taxes	2,382,137	960,686
Balance brought forward	2,939,269	1,978,583
Retained earnings	5,321,406	2,939,269
Balance carried forward	5,321,406	2,939,269

The Board of Directors proposes to the shareholders at the Annual General Meeting on April 4, 2013, to carry forward retained earnings of CHF 5,321,406,484 as shown in the above table.

in CHF thousands	Capital contribution reserve
Appropriation of capital contribution reserve	
Balance at January 1, 2013 (incl. reserve for treasury shares)	10,688,412
Dividend payment out of capital contribution reserve	(2,521,102)[1]
Balance carried forward	8,167,310 [1]

[1] These figures are based on the issued share capital as of December 31, 2012. They may change following the issuance of shares out of contingent capital for employees after the balance sheet date (see note 12). Treasury shares are not entitled to dividends.

The Board of Directors proposes to the Annual General Meeting on April 4, 2013, to pay out a dividend of CHF 2,521 million from the capital contribution reserve.

If this proposal is approved, a payment of CHF 17.00 per share exempt from Swiss withholding tax is expected to be paid starting from April 11, 2013.

Zurich, February 13, 2013

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

Dr. Josef Ackermann

Report of the statutory auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Insurance Group Ltd, Zurich

As statutory auditor, we have audited the accompanying financial statements of Zurich Insurance Group Ltd, which comprise the income statements, balance sheets and notes (pages 327 to 340), for the year ended December 31, 2012.

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, 2012, 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 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 341) complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Richard Burger	Peter Bieri
Audit expert	Audit expert
Auditor in charge	

Zurich, February 13, 2013

Report in relation to the conditional capital increase

Report in Relation to the Conditional Capital Increase

To the Board of Directors of Zurich Insurance Group Ltd, Zurich

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, 2012, to December 31, 2012, 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 914,301 registered shares with a par value of CHF 0.10 complies with Swiss law and the Company's articles of incorporation.

PricewaterhouseCoopers Ltd

Richard Burger	Peter Bieri
Audit expert	Audit expert
Auditor in charge	

Zurich, January 10, 2013

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Shareholder information

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Shareholder information

Zurich Insurance Group Ltd registered share data

Key indicators

as of December 31	2012	2011
Number of shares issued	148,300,123	147,385,822
Number of dividend-bearing shares[1]	148,300,123	147,385,822
Market capitalization (in CHF millions at end of period)	36,096	31,319
Authorized capital, number of shares	10,000,000	10,000,000
Contingent capital, number of shares	12,995,136	13,909,437

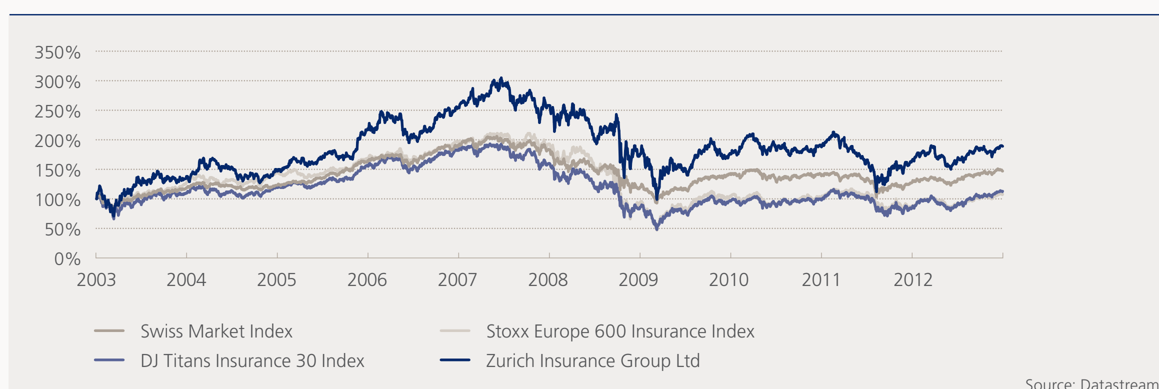
[1] Treasury shares are not entitled to dividends.

Per share data

in CHF	2012	2011
Gross dividend	17.00[1]	17.00
Basic earnings per share	24.79	22.69
Diluted earnings per share	24.66	22.52
Book value per share, as of December 31	214.79	202.17
Nominal value per share	0.10	0.10
Price at end of period	243.40	212.50
Price period high	245.00	274.50
Price period low	193.10	144.90

[1] Proposed dividend, subject to approval by shareholders at the Annual General Meeting 2013; expected payment date as from April 11, 2013. 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



Source: Datastream

Dividend/ payout history

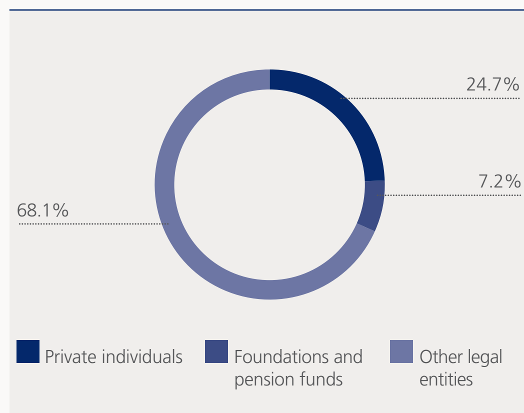
	Financial Year	Gross amount per registered share in CHF	Payment date as from
Dividend	2012	17.00[1]	April 11, 2013[1]
Dividend	2011	17.00	April 5, 2012
Dividend	2010	17.00	April 7, 2011
Dividend	2009	16.00	April 8, 2010
Dividend	2008	11.00	April 7, 2009
Dividend	2007	15.00	April 8, 2008
Dividend	2006	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 2013; expected payment date as from April 11, 2013.

Share trading

Zurich Insurance Group 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 Insurance Group Ltd shares on the Blue Chip Segment is conducted in Swiss francs.

Zurich Insurance Group Ltd shareholders registered in the share ledger



The shares registered in the share ledger as of December 31, 2012 were owned by 124,847 shareholders of which 119,238 were private individuals holding 24.7% of the shares (or 15.3% of all outstanding shares), 2,015 were foundations and pension funds holding 7.2% of the shares (or 4.5% of all outstanding shares), and 3,594 were other legal entities holding 68.1% of the shares (or 42.3% of all outstanding shares).

Significant shareholders

As of December 31, 2012 Zurich Insurance Group Ltd is not aware of any person or institution, other than BlackRock, Inc., New York, and Norges Bank, Oslo, which, directly or indirectly, had an interest as a beneficial owner in shares, option rights and/or conversion rights relating to shares of Zurich Insurance Group 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 Insurance Group Ltd is not aware of any person or institution which, as of December 31, 2012, directly or indirectly, alone or with others, exercised or was a party to any arrangements to exercise control over Zurich Insurance Group Ltd.

Securities custody service

Zurich offers its shareholders the opportunity to deposit Zurich Insurance Group 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 2013
April 4, 2013

Ex-dividend date
April 8, 2013

Dividend – record date
April 10, 2013

Dividend payable as from
April 11, 2013

Results for the three months to March 31, 2013
May 16, 2013

Half year results 2013
August 15, 2013

Results for the nine months to September 30, 2013
November 14, 2013

Publications

Annual Review 2012
The Annual Review contains information about Zurich's businesses, its strategy and its performance over 2012. It is available in German, French and English.

Annual Report 2012
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 financial statements 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

Registered Office
Zurich Insurance Group Ltd
Mythenquai 2
8002 Zurich, Switzerland

Media Relations
Zurich Insurance Group Ltd, Switzerland
Telephone: +41 (0)44 625 21 00
E-mail: media@zurich.com

Investor Relations
Zurich Insurance Group Ltd, Switzerland
Telephone: +41 (0)44 625 22 99
E-mail: investor.relations@zurich.com

Share Register Services
Zurich Insurance Group Ltd, Switzerland
Telephone: +41 (0)44 625 22 55
E-mail: shareholder.services@zurich.com
www.zurich.com/investors/shareholderinformation/

Corporate Responsibility
Zurich Insurance Group Ltd, Switzerland
Telephone: +41 (0)44 625 24 04
E-mail: corporate.responsibility@zurich.com

Securities Custody Service
Zurich Insurance Group Ltd
Securities account
c/o SIX SAG Ltd
P.O. Box, 4601 Olten, Switzerland
Telephone: +41 (0)58 399 61 45
Fax: +41 (0)58 499 61 91

American Depositary Receipts
Zurich Insurance Group Ltd has an American Depositary Receipt program with The Bank of New York Mellon (BNYM). For information relating to an ADR account, please contact BNY Mellon's Shareowner Services in the USA on +1-888-BNY-ADRS 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
is a measure that 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 property lending/banking operations included in Non-Core Businesses, investments in hedge funds, certain securities held for specific economic hedging purposes, and 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 including 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 share of the Group's total IFRS equity allocated based on the segment's proportion of the Group's total risk-based capital (RBC) at each 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 contracts 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 the Group's 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 using a valuation methodology consistent with the EV principles.

Profit by source
is the analysis of the Global Life BOP into components in a consistent and intuitive way to show profit sources. The net expense margin includes fund and non-fund based fees, policy acquisition costs, maintenance expenses and surrender charges. The net risk margin shows the mortality, morbidity, and longevity premiums less benefits to the policyholder together with the reinsurance result. The investment margin is the spread between investment income and interest credited to the policyholder plus the return on free surplus. All margins are net of any related policyholder bonuses. **BOP before deferrals** is a measure of profit excluding i) the net effect of deferral and amortization of policy acquisition costs and front-end fees, which may be affected by movements in financial markets and changes in assumptions; ii) interest expense on debt, depreciation of property and equipment, amortization and impairment of goodwill and other intangibles; and iii) special operating items. **Special operating items** are material non-recurring items that could lead to distortions in underlying margins and trends.

Farmers

Gross management result
is a performance measure of Farmers Management Services calculated as management fees and other related revenues minus management and other related expenses, which include amortization and impairments of intangible assets.

Managed gross earned premium margin
is a performance measure calculated as gross operating profit of Farmers Management Services divided by the gross earned premiums of the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. a wholly owned subsidiary of the Group.

Disclaimer & Cautionary Statement

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

All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors. Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the Farmers Exchanges and in that capacity provide certain non-claims administrative and management services to the Farmers Exchanges. Neither Farmers Group, Inc., nor its parent companies, Zurich Insurance Company Ltd and Zurich Insurance Group Ltd, have any ownership interest in the Farmers Exchanges. Financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Reinsurance Company.

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

Persons requiring advice should consult an independent advisor.

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

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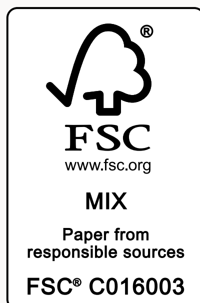

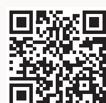

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Zurich Insurance Group

Mythenquai 2
8002 Zurich, Switzerland
Phone +41 (0)44 625 25 25
www.zurich.com

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