Zurich Insurance Group

# Rapport de gestion 2012

# A propos de Zurich

Zurich est un assureur multi-branches de premier plan qui dispose d'un réseau mondial de filiales et d'agences. Environ 60 000 collaborateurs fournissent dans plus de 170 pays un large éventail de produits en assurance dommages et assurance-vie, ainsi que des services pour les particuliers, les petites entreprises, les entreprises de taille moyenne et les grands comptes, parmi lesquels figurent des entreprises multinationales.

## Sommaire



**Notre couverture**
Scène de rue à São Paulo, au Brésil, où Zurich œuvre à satisfaire la demande d'assurance d'une classe moyenne qui continue d'augmenter et d'entreprises prospères.


Pour plus d'informations sur Zurich, rendez-vous sur:

www.zurich.com

# Aperçu de la performance

## Principaux chiffres financiers (non audités)

| en millions d'USD, pour les exercices arrêtés au 31 décembre, sauf indication contraire | 2012 | 2011[1] | Variation[2] |
|---|---|---|---|
| Bénéfice d'exploitation | **4 075** | 4 243 | (4%) |
| Bénéfice net attribuable aux actionnaires | **3 878** | 3 750 | 3% |
| | | | |
| Primes émises brutes et accessoires de primes de General Insurance | **35 610** | 34 572 | 3% |
| Primes émises brutes, accessoires de primes et dépôts à caractère de placement de Global Life | **30 259** | 27 711 | 9% |
| Commissions de gestion et autres produits assimilés de Farmers Management Services | **2 846** | 2 767 | 3% |
| Primes émises brutes et accessoires de primes de Farmers Re | **4 361** | 3 529 | 24% |
| | | | |
| Bénéfice d'exploitation de General Insurance | **2 097** | 2 247 | (7%) |
| Ratio combiné de General Insurance | **98,4%** | 98,9% | 0,5 pts |
| | | | |
| Bénéfice d'exploitation de Global Life | **1 338** | 1 353 | (1%) |
| Équivalent de primes annuelles affaires nouvelles (APE) de Global Life | **4 030**[3] | 3 992 | 1% |
| Marge bénéficiaire des affaires nouvelles, après impôts (en % de l'APE), de Global Life | **22,1%**[3] | 24,5% | (2,5 pts) |
| Valeur des affaires nouvelles (après impôts) de Global Life | **890**[3] | 980 | (9%) |
| | | | |
| Bénéfice d'exploitation de Farmers | **1 414** | 1 486 | (5%) |
| Résultat brut de gestion de Farmers Management Services | **1 378** | 1 333 | 3% |
| Marge sur les primes acquises brutes sous gestion de Farmers Management Services | **7,3%**[4] | 7,3% | – |
| | | | |
| Placements moyens du Groupe | **203 192** | 196 788 | 3% |
| Résultat net des placements du Groupe | **8 911** | 9 367 | (5%) |
| Rendement net des placements du Groupe[5] | **4,4%** | 4,8% | (0,4 pts) |
| Rendement total des placements du Groupe[5] | **7,0%** | 5,3% | 1,7 pts |
| | | | |
| Fonds propres attribuables aux actionnaires | **34 494** | 31 484 | 10% |
| Ratio de capitalisation observé à l'occasion du Test suisse de solvabilité[6] | **178%** | 183% | (5 pts) |
| | | | |
| Bénéfice dilué par action (en CHF) | **24.66** | 22.52 | 10% |
| Valeur comptable par action (en CHF) | **214.79** | 202.17 | 6% |
| | | | |
| Rendement des fonds propres ordinaires (ROE) | **11,8%** | 11,9% | (0,2 pts) |
| Rendement du bénéfice d'exploitation (après impôts) sur les fonds propres ordinaires (BOPAT ROE) | **9,3%** | 10,2% | (0,9 pts) |

[1] Tel que retraité au 31 décembre 2011 (cf. note 1 des Consolidated financial statements).
[2] Les chiffres entre parenthèses indiquent une variation négative.
[3] Hors contribution des activités d'assurance acquises de Banco Santander S.A. (Zurich Santander) ou de l'acquisition de Zurich Insurance Malaysia Berhad (ZIMB).
[4] Calcul basé sur le montant des primes acquises brutes des Farmers exchanges de 18,8 milliards d'USD, excluant le rendement des primes de 74 millions d'USD, suite au règlement anticipé d'un procès avec l'Etat du Texas.
[5] Calculé sur la moyenne des placements du Groupe.
[6] Les ratios respectifs au 1er juillet 2012 et 1er janvier 2012 sont calculés d'après le modèle interne du Groupe, soumis au contrôle et à l'approbation de l'autorité de régulation du Groupe, l'Autorité fédérale de surveillance des marchés financiers (FINMA). Le ratio du Test suisse de solvabilité au 1er janvier 2012 a été redéfini d'après le contrôle de la FINMA sur le rapport SST annuel.

### Actualité

- Zurich Santander et Zurich Insurance Malaysia Berhad ont contribué à la croissance des primes des segments assurance-vie (Global Life) et assurance dommages (General Insurance)
- Le Groupe a développé les accords de distribution bancaire par le biais d'alliances au Moyen-Orient, en Italie, en Espagne et en Indonésie
- Les Farmers Exchanges[1] poursuivent leur expansion vers l'est des États-Unis et renforcent leur réseau d'agents exclusifs

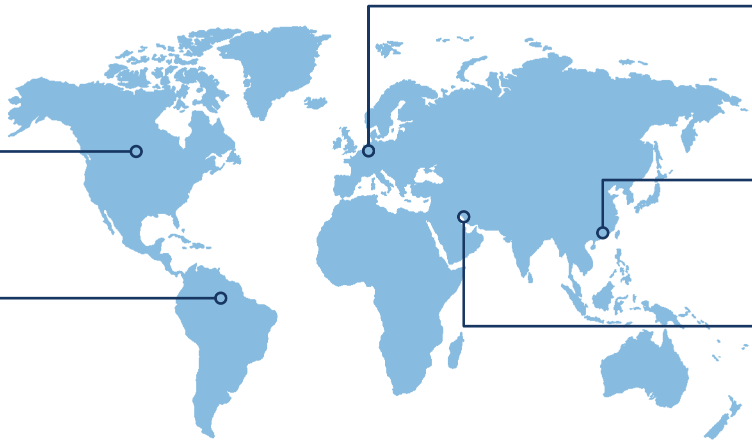
[1] Toute référence faite aux «Farmers Exchanges» désigne Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange ainsi que leurs filiales et sociétés affiliées. Les trois Exchanges sont des compagnies d'assurances organisées de façon coopérative (interinsurance exchanges) domiciliées en Californie, détenues par leurs assurés et dont la gouvernance est supervisée par leurs Conseils des gouverneurs (Board of Governors).

# Zurich en bref

Nous adoptons une approche mondiale à l'égard de nos ressources et capacités. Notre flexibilité et notre rapidité nous permettent d'adapter notre portefeuille de produits et notre présence géographique pour répondre aux fluctuations des marchés. Les processus et les systèmes mondiaux nous permettent d'exploiter au mieux nos points forts.

**Amérique du Nord**
En 2012, Zurich a célébré ses 100 ans de présence aux États-Unis dans les services d'assurance.

**Amérique latine**
Notre joint-venture en 2011 avec Banco Santander S.A., a renforcé notre présence en Amérique latine.



**Europe**
Nous sommes solidement implantés en Allemagne, en Italie, en Espagne, en Suisse et au Royaume-Uni et nous avons une présence significative dans cinq autres pays.

**Asie-Pacifique**
Zurich est implantée en Australie, en Chine, à Hong Kong, en Indonésie, au Japon, en Malaisie, à Singapour et à Taïwan.

**Moyent-Orient & Afrique**
Nous sommes présents en divers points de la région avec des activités clés au Moyen-Orient, en Afrique du Sud, au Maroc et en Turquie.

## Nos segments

### General Insurance

**Activité:** assurance dommages et services
**Segments de marché:** particuliers, petites et moyennes entreprises et grands comptes
**Canaux de distribution:** agents, banques, courtiers, direct
**Géographie:** au niveau mondial

2 097 millions d'USD
Bénéfice d'exploitation

35 610 millions d'USD
Primes émises brutes et accessoires de primes

### Global Life

**Activité:** assurance-vie, épargne, solutions de placement et de retraite
**Segments de marché:** particuliers, petites et moyennes entreprises et grands comptes
**Canaux de distribution:** agents, banques, courtiers, conseillers en avantages du personnel, direct
**Géographie:** au niveau mondial

1 338 millions d'USD
Bénéfice d'exploitation

30 259 millions d'USD
Primes émises brutes, accessoires de primes et dépôts à caractère de placement

### Farmers

**Activité:** services de gestion liés à l'assurance dommages
**Segments de marché de Farmers Exchanges[1]:** particuliers et petites et moyennes entreprises
**Canaux de distribution de Farmers Exchanges[1]:** agents, direct
**Géographie:** États-Unis

[1] Toute référence faite aux «Farmers Exchanges» désigne Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange ainsi que leurs filiales et sociétés affiliées. Les trois Exchanges sont des compagnies d'assurances organisées de façon coopérative (interinsurance exchanges) domiciliées en Californie, détenues par leurs assurés et dont la gouvernance est supervisée par leurs Conseils des gouverneurs (Board of Governors).

1 414 millions d'USD
Bénéfice d'exploitation

2 846 millions d'USD
Commissions de gestion et autres produits assimilés

## Principaux chiffres

**4,1** milliards d'USD
Bénéfice d'exploitation
(31 décembre 2012)

**178 %**
Ratio de capitalisation observé à l'occasion du Test suisse de solvabilité
(1[er] juillet 2012)

**34,5** milliards d'USD
Fonds propres attribuables aux actionnaires
(31 décembre 2012)

# Stratégie du Groupe

Zurich est un assureur mondial rentable, fortement capitalisé et solide. Notre succès est fondé sur le dévouement de nos collaborateurs et sur une combinaison de discipline financière et de discipline de souscription, de centrage sur le client et d'excellence opérationnelle. Mais pour poursuivre sur notre lancée dans un environnement économique et social de plus en plus volatil, nous devons faire plus.

Notre stratégie de Groupe vise à dégager une croissance rentable en mettant à profit la force de notre activité mondiale, en exploitant au mieux nos ressources et en bâtissant la réputation de notre marque comme gage de confiance. Cette stratégie est fondée sur trois concepts simples: «qui nous sommes, ce que nous faisons et comment nous y parvenons.»

Vous voulez en savoir plus sur notre stratégie de Groupe? Veuillez consulter les pages 8 et 9 de ce Rapport de gestion 2012.

## Notre stratégie

### Qui nous sommes

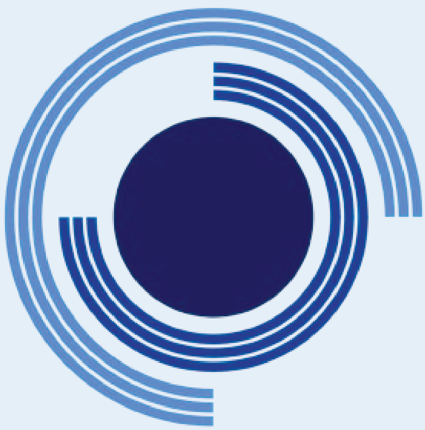
**La Zurich Story**
Nous sommes Zurich, une seule et même entreprise mondiale avec une même mission, une même ambition, un ensemble de valeurs communes et un engagement clairement articulé envers nos parties prenantes: nos clients, nos collaborateurs, nos actionnaires et les communautés au sein desquelles nous vivons et travaillons.

### Ce que nous faisons

**Portefeuille**
Constituer un portefeuille rentable sur le long terme.

**Clients et intermédiaires**
Devenir une organisation davantage centrée sur les clients.

**Produits et services**
Exceller dans les produits et les services.



### Comment nous y parvenons

**Gestion des collaborateurs**
Attirer, retenir et perfectionner les meilleurs collaborateurs.

**The Zurich Way**
Créer un avantage concurrentiel en partageant les meilleures pratiques.

**Processus et systèmes**
Simplifier et améliorer nos processus et nos systèmes.

**60 000**
Collaborateurs (environ)
(31 décembre 2012)

**170+**
Pays
(31 décembre 2012)

**AA–/stable**
Notation de Standard & Poor sur la solidité financière de Zurich Compagnie d'Assurances SA
(31 décembre 2012)

# Message du président du Conseil d'administration et du CEO

Dr. Josef Ackermann
et Martin Senn

Mesdames, Messieurs les actionnaires,

**Nous sommes heureux de vous présenter nos résultats financiers pour l'ensemble de l'exercice 2012, qui reflètent une excellente rentabilité basée sur la priorité donnée à notre discipline tarifaire et notre gestion de portefeuille. Le dividende de 17.00 CHF que nous proposons reflète notre confiance dans notre stratégie, ainsi que notre capacité à dégager de confortables flux de trésorerie et une solide assise financière.**

Le bénéfice d'exploitation pour la période s'élève à 4,1 milliards d'USD, en baisse de 4% par rapport à l'exercice 2011. Le bénéfice net attribuable aux actionnaires pour l'exercice 2012 s'élève à 3,9 milliards d'USD, en hausse de 3% par rapport à l'exercice précédent. Le rendement du bénéfice d'exploitation (après impôts) sur les fonds propres ordinaires est de 9,3%, contre 10,2% en 2011.

Nous sommes en mesure de présenter une solide rentabilité en 2012 malgré un environnement difficile, la tempête Sandy et un résultat décevant dans notre activité d'assurance dommages en Allemagne. Nous continuons de mettre en œuvre notre stratégie avérée, avec une approche disciplinée dans le développement de nos affaires sur les marchés émergents et de solides résultats sur les marchés à maturité.

En 2012, nous avons continué à développer nos accords de distribution bancaire par le biais d'alliances au Moyen-Orient, en Italie, en Espagne et en Indonésie. Nous sommes particulièrement satisfaits de nos résultats aux États-Unis, où nous avons célébré nos 100 ans de présence en 2012, et de l'intégration réussie des activités d'assurance acquises en Amérique latine et en Malaisie, des marchés à fort potentiel de croissance.

Le Groupe a également retraité ses comptes pour les exercices 2010 et 2011 conformément aux Normes internationales d'information financière (International Financial Reporting Standards; IFRS) pour une partie des ajustements comptables annoncés précédemment en Allemagne. En effet, il s'est avéré lors de l'examen de l'activité d'assurance dommages en Allemagne que des pratiques de calcul de réserves individuelles inappropriées avaient donné lieu à des erreurs. De plus, le Groupe a établi que les frais d'acquisition différés étaient surévalués à la suite d'une erreur de système en Allemagne. Le cumul de ces erreurs substantielles a engendré le retraitement qui a abouti à une augmentation de 264 millions d'USD du bénéfice d'exploitation et de 194 millions d'USD du bénéfice net attribuable aux actionnaires précédemment annoncé pour le troisième trimestre 2012, et ce en réattribuant ces erreurs aux périodes antérieures respectives. Les fonds propres attribuables aux actionnaires à la fin de l'exercice 2012 n'ont pas été affectés par le retraitement tandis que le chiffre relatif à la fin de l'exercice 2011 a été réduit de 196 millions d'USD. Avec ces modifications, les résultats présentent une base comparable.

### General Insurance: une solide croissance sous-jacente du chiffre d'affaires et du bénéfice

Le bénéfice d'exploitation du segment assurance dommages (General Insurance) s'est élevé à 2,1 milliards d'USD en 2012, en baisse de 150 millions d'USD. Toutefois, la croissance sous-jacente du bénéfice et du chiffre d'affaires a été forte. Cela reflète la priorité absolue accordée par le segment assurance dommages à la discipline de souscription et à la maîtrise des dépenses, également perceptible dans l'amélioration de 2,9 points du taux de sinistralité attritionnel, à 61,4%.

La performance globale a été pénalisée par des sinistres liés aux catastrophes et aux conditions météorologiques supérieurs à la moyenne pour la seconde année consécutive, dont la tempête Sandy fin 2012. Autre facteur qui a pesé sur la performance: les ajustements comptables en Allemagne, ainsi qu'-

annoncé auparavant. Du fait de la révision de l'activité d'assurance dommages allemande, le Groupe a de nouveau augmenté ses provisions pour sinistres au quatrième trimestre d'environ 60 millions d'USD pour les branches impactées lors du trimestre précédent, et d'environ 70 millions d'USD pour les autres branches d'activités. Le segment d'assurance dommages allemand est désormais revenu à un cours normal où les développements positifs et négatifs pourraient se compenser.

Les primes émises brutes et accessoires de primes du segment assurance dommages se sont élevées à 35,6 milliards d'USD en 2012, en hausse de 1 milliard d'USD. Le segment assurance dommages est parvenu à augmenter ses tarifs moyens de 4%, ce qui reflète la priorité stratégique que nous accordons à la croissance rentable sur nos marchés cibles tout en continuant de faire preuve de discipline en matière de souscription. Dans l'ensemble, la croissance des primes a été soutenue, notamment sur les International Markets grâce à une combinaison de croissance organique et d'acquisitions, ainsi qu'en Amérique du Nord. En revanche, les résultats en Europe continuent d'être affectés par une conjoncture économique morose, notamment sur certains des principaux marchés tels que le Royaume-Uni, l'Espagne et l'Italie.

## Global Life: une progression régulière dans l'atteinte des objectifs stratégiques

Le segment assurance-vie (Global Life) a maintenu sa rentabilité tout en continuant d'enregistrer une croissance des primes émises brutes, accessoires de primes et dépôts à caractère de placement.

Le bénéfice d'exploitation du segment assurance-vie est resté stable, à 1,3 milliard d'USD, avec une contribution positive des activités d'assurance rachetées à Banco Santander S.A. (Zurich Santander) évaluée à 105 millions d'USD, largement neutralisée par une contribution plus faible d'éléments d'exploitation non récurrents. Les primes émises brutes, accessoires de primes et dépôts à caractère de placement du segment assurance-vie ont atteint 30,3 milliards d'USD, en hausse de 2,5 milliards d'USD du fait de l'intégration de Zurich Santander.

La valeur des affaires nouvelles après impôts, y compris Zurich Santander et Zurich Insurance Malaysia Berhad s'est élevée à 1,1 milliard d'USD, soit une hausse de 11%. Zurich Santander et Zurich Insurance Malaysia Berhad ont généré 195 millions d'USD tandis que la valeur des affaires nouvelles après impôts et hors acquisitions récentes, s'est élevée à 890 millions d'euros, en baisse de 90 millions d'USD. La stratégie consistant à se diversifier géographiquement sur des marchés cibles et à diversifier le portefeuille au profit des produits de prévoyance et des produits tarifés compense l'érosion des volumes et de la marge bénéficiaire observée en Europe.

## Farmers: des bénéfices constants

Le bénéfice d'exploitation de Farmers s'est élevé à 1,4 milliard d'USD, en baisse de 72 millions d'USD soit 5%, en raison principalement d'une perte opérationnelle enregistrée par Farmers Re.

Le bénéfice d'exploitation de Farmers Management Services a atteint 1,4 milliard d'USD, en hausse de 71 millions d'USD soit 5%, principalement sous l'effet de l'augmentation des primes acquises brutes des Farmers Exchanges, qui sont gérés mais non détenus par Farmers Group, Inc., filiale détenue à 100% par le Groupe. Le bénéfice d'exploitation de Farmers Re a diminué de 142 millions d'USD, avec à la clé une perte de 26 millions d'USD, qui s'explique principalement par le fait que les boni réalisés sur exercices antérieurs constatés en 2012 étaient inférieurs à ceux dont Farmers Re avait bénéficié en 2011.

Les commissions de gestion et autres produits assimilés de Farmers Management Services s'élèvent à 2,8 milliards d'USD, en hausse de 79 millions d'USD, soit 3%. Cette progression s'explique par l'augmentation de 3% des primes acquises brutes des Farmers Exchanges. La hausse de 24%, à 4,4 milliards d'USD, des primes émises brutes de Farmers Re résulte principalement des modifications apportées au contrat de réassurance All Lines par rapport à 2011, et de la croissance de 3% des primes émises brutes des Farmers Exchanges.

## Solidité et engagement à verser des dividendes durables et attrayants

Zurich continue d'afficher une forte rentabilité sous-jacente. Nous avons augmenté notre chiffre d'affaires en défendant notre position sur les marchés à maturité et en nous diversifiant vers des marchés émergents cibles. Notre performance en matière de placement a été forte, avec un rendement de 7% en 2012.

Nous sommes en mesure de dégager de solides résultats financiers en 2012 malgré l'incertitude économique qui règne dans le monde entier. Nous avons la chance d'avoir à nos côtés des collaborateurs talentueux qui travaillent dur chaque jour pour aider nos clients à comprendre les risques et à s'en protéger. Nous sommes reconnaissants à l'égard de nos clients et nous savons que nous devons gagner leur confiance en leur offrant des produits et des services d'excellence qui répondent à leurs besoins. Nous exprimons également notre gratitude à nos actionnaires pour leur soutien. Ils savent que Zurich s'efforce de leur assurer des rendements stables dans un environnement difficile.

**Dr. Josef Ackermann**
Président du Conseil d'Administration

**Martin Senn**
Chief Executive Officer

# Environnement de marché

## En tant qu'assureur mondial présent dans plus de 170 pays, Zurich adopte une démarche active dans les questions réglementaires, économiques et opérationnelles en 2013.

**Zurich s'engage à tous les niveaux de l'organisation pour répondre aux défis réglementaires, économiques et opérationnels qu'elle doit relever. Elle maintient le dialogue avec les décideurs politiques, les organismes de normalisation et les autorités de réglementation. Zurich a confiance en sa capacité à gérer au mieux ces changements dans l'intérêt de ses parties prenantes.**

### Défis réglementaires

Dans le monde entier, les enjeux d'ordre public entraînent des réactions des autorités de contrôle des assurances au niveau national comme au niveau mondial. Face à ces enjeux, Zurich adopte une démarche constructive. Plus précisément, elle mène une coopération étroite avec les régulateurs pour renforcer le cadre réglementaire. Les initiatives actuelles les plus significatives des gouvernements et des autorités de surveillance constituent autant de réponses aux conséquences de la crise financière. Parmi ces initiatives, citons:

### Le classement potentiel dans la liste des assureurs d'importance systémique («G-SII»)

Plusieurs conglomérats situés au cœur du système financier sont devenus les victimes de la crise économique mondiale en raison de leur endettement excessif et de l'insuffisance des fonctions de gestion du risque. En réponse au risque systémique soulevé par les faillites de grands établissements financiers étroitement liés les uns aux autres, les autorités de réglementation élaborent des politiques visant à éviter une situation similaire.

*«Les initiatives actuelles les plus significatives des gouvernements et des autorités de surveillance constituent autant de réponses aux conséquences de la crise financière.»*

L'Association Internationale des Contrôleurs d'Assurance (AICA) participe à une initiative mondiale qui vise à identifier les G-SII potentiels, dont les difficultés ou la faillite incontrôlée entraîneraient, en raison de leur taille, de leur complexité et de leurs interconnexions, des perturbations significatives du système financier mondial et de l'activité économique.

Si une entreprise devait être considérée comme un assureur d'importance systémique, elle pourrait alors être soumise à des exigences réglementaires et financières supplémentaires. Les organisations considérées d'importance systémique pourraient être tenues d'augmenter leur capital pour absorber des pertes potentielles et de soumettre des plans de redressement et de mise en œuvre formels. Par ailleurs, elles devraient également présenter une proposition sur la manière d'atténuer leur risque systémique.

### Les déficits budgétaires nationaux sources de lois protectionnistes

Les déficits budgétaires élevés dans certains pays commencent à inspirer des mesures qui affectent davantage les participants au marché étranger que les acteurs locaux. Citons notamment la réglementation argentine en matière de placements et la réglementation brésilienne en matière de réassurance.

Le plan stratégique national du secteur de l'assurance 2012–2020 annoncé par le ministre de l'économie argentin stipule que les assureurs qui opèrent en Argentine doivent consacrer 30% de leur portefeuille d'investissements à des instruments qui financent des projets productifs à long terme en Argentine. Au Brésil, la réglementation votée en 2011 exige que 40% de chaque placement de réassurance soit effectué au profit d'un réassureur local et restreint les cessions aux filiales à l'étranger à 20% de chaque placement.

### La législation sur la protection des consommateurs impose des réglementations plus strictes

Depuis que la crise financière a éclaté en 2008, nous avons assisté à un regain de protection des consommateurs et de réglementation de la distribution. Dans une certaine mesure, cela découle d'expériences malheureuses vécues lors de la crise par des preneurs d'assurance qui s'étaient vu proposer des produits réputés «sûrs», lesquels ont abouti à des pertes de pensions individuelles et d'autres produits d'épargne.

L'impact a été renforcé par la nouvelle structure de surveillance dont la mise en œuvre est en cours dans plusieurs pays tels que le Royaume-Uni et l'Italie. Dans ces pays, la surveillance prudentielle du secteur de l'assurance est concentrée au niveau de leur banque centrale et une agence spéciale de protection des consommateurs a été créée. Ces agences ne sont pas tenues de prendre en compte les aspects prudentiels ou de solvabilité en ce qui concerne le coût que ces mesures de protection supplémentaires pourraient engendrer.

### Conflits entre les mesures réglementaires au niveau mondial et local

Les autorités mondiales et locales de réglementation de l'assurance ont des objectifs différents. En général, les autorités mondiales envisagent le statut des organisations d'assurance en terme d'impact financier au sens large, tandis que les organismes locaux ne tiennent compte que des entités juridiques dans leur pays et se concentrent sur des aspects plus restrictifs en matière de gouvernance, de conformité et de solvabilité. Cela est susceptible de créer des conflits entre les objectifs organisationnels de la Direction générale de Zurich et les exigences locales auxquelles les entités juridiques sont soumises. Par exemple, les décisions en matière d'allocation des ressources sont susceptibles d'être biaisées lorsque la libre circulation des capitaux est entravée.

**Perspectives conjoncturelles et perspectives de marché**

En 2013, l'environnement macroéconomique mondial offre des perspectives plus clémentes qu'en 2012 bien que des risques de dégradation subsistent. Les perspectives devraient s'améliorer à mesure que l'incertitude politique se dissipera et que les gouvernements donneront priorité à la croissance plutôt qu'à l'austérité. La croissance devrait être plus forte qu'en 2012 mais inférieure à la tendance car les consommateurs et les établissements financiers continuent de réduire leurs dépenses et leur recours au crédit.

Les décideurs politiques ont adopté une approche plus pragmatique à l'égard des problèmes économiques actuels et cette tendance devrait perdurer. Au sein de l'Union européenne, le spectre d'une sortie de la Grèce s'est éloigné et les difficultés de financement de l'Espagne se sont atténuées après la fixation d'objectifs plus souples ajustés en fonction de la conjoncture. De même, des progrès ont été accomplis sur le déficit budgétaire aux États-Unis avec l'accord conclu entre les républicains et les démocrates. Cette tendance à résoudre les problèmes a commencé à insuffler de la confiance aux investisseurs et à favoriser un certain retour à la normale sur les marchés.

*«Les perspectives devraient s'améliorer à mesure que l'incertitude politique se dissipera et que les gouvernements donneront priorité à la croissance plutôt qu'à l'austérité.»*

Ce processus d'embellie économique progressif devrait favoriser l'environnement des actifs à risque car les investisseurs reprennent confiance et font leur retour sur les marchés financiers. Les actions, les obligations d'entreprises et les emprunts d'État des pays de la périphérie de la zone euro sont les plus susceptibles d'en profiter, tandis que les obligations souveraines des pays du cœur de la zone euro et les valeurs refuge traditionnelles devraient connaître une désaffection. L'inflation devrait rester contenue car les banques maintiennent des conditions de crédit plus restrictives. Par ailleurs, le chômage reste important, c'est pourquoi la pression à la hausse des salaires ne constitue pas un problème.

Malgré cette embellie progressive sur le front de l'économie, Zurich reste vigilante face aux risques potentiels susceptibles de perturber le fonctionnement des marchés financiers et se prépare à des scénarios aussi divers que des contraintes de liquidités, l'exposition aux devises étrangères et les effets de contagion qui en découlent.

**Sécurité et risque informatique**

La société de l'ère numérique présente des risques nouveaux et en évolution constante pour toutes les organisations. Les attaques dirigées contre les infrastructures de technologie de l'information et la cybercriminalité constituent une menace constante avec des conséquences substantielles.

Les membres du Conseil d'administration et les cadres de direction sont de plus en plus conscients du large éventail de risques encourus: vol ou perte de données, violation des lois relatives à la protection de la vie privée, violation de la propriété intellectuelle, médias sociaux, terminaux mobiles et le cloud computing. Les violations de la sécurité des données sont non seulement susceptibles de nuire à la réputation des assureurs, mais elles risquent également d'entraîner des sanctions de la part des autorités de réglementation.

Même si les stratégies pour faire face à ces risques diffèrent, de plus en plus d'organisations adoptent une approche à l'échelle de l'entreprise – ou tout au moins à l'échelle de plusieurs services – à l'égard de la sécurité de l'information et de la gestion du risque de responsabilité en cas d'atteinte à la protection des données. De plus en plus, elles intègrent l'assurance dans leur stratégie de gestion du risque informatique.

La protection des données revêt une importance capitale aux yeux de Zurich. Certes, la sécurité totale des données n'est jamais garantie mais nous avons réalisé des investissements significatifs pour nous doter de solutions d'architecture informatique robustes afin de faire obstacle aux potentielles intrusions et d'entretenir l'infrastructure réseau à l'aide de normes exigeantes en matière de sécurité informatique.

# Notre stratégie

La stratégie de notre Groupe a été élaborée dans un souci de croissance rentable en mettant à profit la force de notre activité mondiale.

**La structure de la stratégie de Zurich (telle que définie ci-dessous) est une nouvelle illustration des principes que Zurich met en œuvre depuis de nombreuses années. Elle clarifie notre orientation stratégique pour toutes nos parties prenantes et assure qu'au sein de l'organisation nous soyons tous rassemblés autour d'un objectif commun. Ce nouveau cadre stratégique repose sur trois concepts simples: qui nous sommes, ce que nous faisons et comment nous y parvenons.**

## Qui nous sommes

Zurich est un assureur multi-branches de premier plan qui dispose d'un réseau mondial de filiales et d'agences. Environ 60 000 collaborateurs fournissent dans plus de 170 pays un large éventail de produits en assurance dommages et assurance-vie, ainsi que des services pour les particuliers, les petites entreprises, les entreprises de taille moyenne et les grands comptes, parmi lesquels figurent des entreprises multinationales.

Notre mission consiste à aider nos clients à comprendre les risques et à s'en protéger. Nous aspirons à être le meilleur assureur mondial aux yeux de nos clients, de nos collaborateurs et de nos actionnaires. Nos valeurs telles que définies dans notre code de déontologie, les Zurich Basics, forgent notre culture et définissent nos comportements. Elles sont les suivantes: intégrité, centrage sur le client, excellence, création de valeur durable et travail en équipe.

## Ce que nous faisons

Nous voulons devenir une organisation davantage centrée sur le client. Cela signifie que nous devons nous focaliser sur des marchés et des segments de clientèle spécifiques, créer des propositions compétitives et offrir une expérience client sans égale.

### Constituer un portefeuille rentable sur le long terme

Nous cherchons à:
- développer nos affaires par le biais de la croissance interne là où nous pouvons le faire de manière rentable;
- nous servir de notre solide assise financière pour prendre de l'expansion par le biais d'acquisitions ciblées, de joint-ventures et d'alliances sur les marchés arrivés à maturité et les marchés à fort potentiel de croissance.

Pour ce faire, nous améliorons nos capacités internes pour nous permettre d'identifier et de saisir les nouvelles opportunités lorsque celles-ci se présenteront.

### Devenir une organisation davantage centrée sur les clients

Nous cherchons à:
- créer davantage de valeur à partir de notre portefeuille existant en développant les possibilités de ventes croisées et en fidélisant davantage la clientèle;
- décrocher de nouvelles affaires en améliorant notre visibilité et notre attractivité auprès des clients.

Pour atteindre cet objectif, nous modernisons notre infrastructure de service et adoptons des outils et des techniques qui nous donneront une meilleure compréhension des besoins de nos clients.

### Exceller dans les produits et les services

Nous cherchons à:
- enrichir notre gamme de produits et services;
- identifier les opportunités rentables au sein du secteur et redéfinir la chaîne de valeur.

Cela impliquera d'adopter une approche en matière de développement de produits davantage centrée sur les clients et d'adapter notre gamme aux différentes étapes de la vie de nos clients.

## Comment nous y parvenons

Nous savons ce qu'il faut faire pour atteindre nos objectifs. Nous avons besoin des collaborateurs les plus talentueux et les plus qualifiés du secteur et d'une culture qui leur permette d'exprimer pleinement leur potentiel. Nous devons définir et mettre à profit des pratiques exemplaires et soutenir la transformation de Zurich en une organisation davantage centrée sur les clients.

### Attirer, retenir et perfectionner les meilleurs collaborateurs

Nous cherchons à:
- développer des capacités de gestion des collaborateurs afin d'attirer, de conserver et de perfectionner les meilleurs collaborateurs dans notre secteur;
- promouvoir une culture de l'excellence qui stimule et motive tous les salariés et les rend fiers d'appartenir à Zurich.

Nous nous rapprocherons de ces objectifs en adoptant une approche mondiale en matière de gestion des collaborateurs et du recrutement de talents tout en favorisant la diversité sur le lieu de travail et l'évolution de carrière.

### Simplifier et améliorer nos processus et nos systèmes

Nous cherchons à:
- mettre à jour ou réinventer nos processus et nos systèmes afin d'en réduire la complexité et de répondre efficacement aux attentes fluctuantes des clients;
- améliorer en permanence nos capacités techniques et créer des services partagés générateurs de valeur ajoutée afin de soutenir nos initiatives commerciales.

Notre champ d'action futur reconnaîtra les besoins spécifiques de nos clients en tirant parti de notre dimension mondiale.

### Créer un avantage concurrentiel en améliorant nos capacités mondiales

Nous cherchons à:
- mettre à profit le programme The Zurich Way (TZW) dans son objectif initial pour sélectionner, améliorer et déployer systématiquement nos capacités métier dans l'ensemble du Groupe;
- créer des normes mondiales que tous nos collaborateurs pourront adopter, des normes qui représentent la manière dont nous conduisons nos affaires chez Zurich.

Nous développons et pilotons nos capacités au niveau mondial afin d'établir des pratiques de travail uniformes au sein du Groupe Zurich.

### Responsabilité sociale d'entreprise: notre choix stratégique

Chez Zurich, la responsabilité sociale d'entreprise (RSE) est un axe majeur de notre stratégie. Il s'agit de créer de la valeur durable, une de nos valeurs clés telles que définies dans les Zurich Basics, notre code de déontologie. Nous cherchons à créer de la valeur durable pour chacun de nos principaux groupes de parties prenantes en abordant de façon proactive les enjeux environnementaux, sociaux et de gouvernance.

Les Zurich Basics ainsi que notre adhésion au Pacte mondial des Nations Unies constituent le socle de notre stratégie RSE. Nous nous concentrons sur les domaines liés à notre cœur de métier afin d'utiliser notre expertise de l'assurance et de la gestion des risques pour améliorer notre contribution à la société. Ces domaines sont les suivants:

- amélioration de la résilience aux inondations pour les communautés;
- investissement responsable des actifs de notre Groupe;
- travail avec notre clientèle de grands comptes pour les aider à mieux comprendre et gérer leurs risques en matière de RSE;
- investissement au profit des communautés par le biais de la Fondation Z Zurich;
- gestion de l'environnement, de la santé et de la sécurité dans nos immeubles de bureaux;
- diversité et intégration au sein de nos effectifs;
- gestion responsable de la chaîne d'approvisionnement.

Pour garantir la mise en œuvre de notre stratégie RSE, le Comité exécutif du Groupe a constitué un groupe de travail RSE chargé de le conseiller sur sa stratégie, ses priorités et ses objectifs, ainsi que de suivre notre performance. Nos trois segments d'activité et nos fonctions clés telles que Group Operations et Investment Management sont représentés au sein de ce groupe de travail pour s'assurer de l'intégration de la RSE dans nos activités. Le groupe de travail RSE est présidé par un membre du Comité exécutif du Groupe, à savoir Kevin Hogan, CEO Global Life.

Pour de plus amples informations sur la responsabilité sociale d'entreprise chez Zurich, veuillez consulter le Compte rendu des activités 2012, disponible sur le site www.zurich.com, ainsi que la section responsabilité sociale d'entreprise de notre site internet (onglet «About us»).

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# Notre stratégie

## Évaluation de notre performance

Aux ambitions stratégiques du Groupe s'ajoutent des objectifs pour chacun de nos trois segments.

### Aspirations stratégiques du Groupe

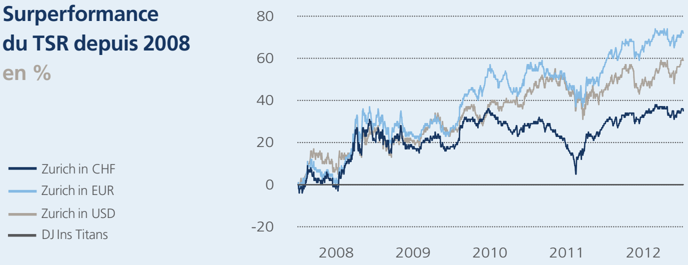
Zurich maintient son objectif stratégique de dégager un rendement du bénéfice d'exploitation (après impôts) sur fonds propres ordinaires de 16%. Compte tenu du niveau actuel des taux d'intérêt, un rendement d'environ 2 points de moins apparaît plus réaliste.

Offrir une rendement total de l'actionnaire (TSR) attrayant

### Objectifs

| | |
|---|---|
| General Insurance | • Améliorer le ratio combiné de 3 à 4 points par rapport aux concurrents internationaux d'ici à 2013<br>• Réduire les dépenses (hors commissions) de 7% ou d'au moins 350 millions d'USD annualisés d'ici à 2013 (y compris dans l'objectif du Groupe de 500 millions d'USD)<br>• Conserver notre position sur le marché sans affecter la rentabilité |
| Global Life | • 30% de termes de valeur des affaires nouvelles (NBV) en provenance des régions Asia-Pacific, Middle East (APME) et Amérique Latine<br>• Figurer dans les 5 premiers assureurs mondiaux établis en Europe en NBV<br>• Croissance organique autofinancée génératrice de liquidités |
| Farmers | • Maintenir une performance de croissance dans le quartile supérieur parmi les 12 principaux assureurs de particuliers aux États-Unis<br>• Augmenter la part de marché des Farmers Exchanges<br>• Améliorer le taux de rétention de 3 points pour rejoindre les principaux concurrents dans le domaine de l'assurance de particuliers aux États-Unis. |
| Groupe | • Réduire les coûts annualisés de 500 millions d'USD sur les marchés à maturité d'ici la fin de 2013 pour renforcer notre position dans les marchés en expansion |

| Performance | Commentaire |
| --- | --- |
| **BOPAT-ROE** 9,3% (2011: 10.2%) | • La rentabilité sous-jacente a été soutenue par les contributions du segment assurance-vie (Global Life) et de Farmers, ainsi que par la solide performance sous-jacente en matière de souscriptions du segment assurance dommages (General Insurance). |
| **Surperformance du TSR depuis 2008** en % | • Zurich a nettement surpassé l'indice de référence Global Insurance Titans en termes de TSR depuis 2008, d'environ 37% en francs suisses, 60% en dollars américains et 74% en euros. |




| Principaux chiffres | Commentaire |
| --- | --- |
| **Ratio combiné** 98,4% (2011: 98,9%) | • Dans tout le portefeuille, les objectifs stratégiques ont encore été atteints, avec une amélioration du taux de sinistres sous-jacent. |
| **Part des affaires nouvelles, après impôts, en APME et Amérique Latine** 25,2% (2011: 21,1%) | • Le segment assurance-vie a encore bénéficié en 2012 de son investissement dans la croissance organique sur ses marchés cibles. Comprenant les acquisitions Zurich Santander et Zurich Insurance Malaysia Berhad la part des affaires nouvelles atteindra presque 40%. |
| **Primes émises brutes chez Farmers Exchanges** 18 935 millions d'USD (2011: 18 297 millions d'USD) | • Cette augmentation est liée à la progression constante des primes dans toutes les branches d'activité, qui résulte en premier lieu des hausses tarifaires en cours visant à améliorer la rentabilité. |
| **Réduction des dépenses en date dans le cadre du programme de gains d'efficience** 200 millions d'USD | • Le segment assurance dommages a jusqu'à maintenant réalisé la majeure partie des économies du Groupe. Group Operations a mené deux des plus grandes initiatives d'externalisation informatique dans le secteur de l'assurance. Les projets de restructuration de l'assurance-vie devraient être visibles en 2013. |

# Notre performance

## La mise en œuvre de la stratégie du Groupe et la priorité accordée à son cœur de métier d'assureur ont permis une forte croissance et une meilleure rentabilité sous-jacente.

**Zurich a enregistré de solides résultats et dégagé de confortables flux de trésorerie tout en maintenant des niveaux de fonds propres très élevés. Cela a permis au Conseil d'administration de proposer un dividende attrayant de 17.00 CHF par action, qui témoigne de l'engagement sans faille du Groupe à créer de la valeur pour ses actionnaires.**

La mise en œuvre de la stratégie du Groupe et la priorité accordée à son cœur de métier d'assureur ont permis une forte croissance et une meilleure rentabilité sous-jacente, deux paramètres essentiels pour compenser la baisse des produits des placements liée à la persistance d'un environnement à faible rendement.

L'amélioration de la rentabilité a été soutenue par les contributions du segment assurance-vie (Global Life) et de Farmers, ainsi que par la solide performance sous-jacente en matière de souscription du segment assurance dommages (General Insurance). La performance globale du segment assurance dommages a été pénalisée par des sinistres liés aux catastrophes et aux conditions météorologiques supérieurs à la moyenne, dont la tempête Sandy fin 2012. Autre facteur qui a pesé sur la performance: l es conséquences défavorables de l'examen de l'activité d'assurance dommages en Allemagne.

Le bénéfice d'exploitation s'élève à 4,1 milliards d'USD, en baisse de 169 millions d'USD, soit 4%. Le bénéfice net attribuable aux actionnaires s'élève à 3,9 milliards d'USD, en hausse de 128 millions d'USD, soit 3%.

Les volumes d'affaires des segments d'activité principaux, qui englobent les primes émises brutes, accessoires de primes, dépôts à caractère de placement et les commissions de gestion, ont atteint 73,1 milliards d'USD, en hausse de 4,5 milliards d'USD, soit 7%.

Les acquisitions stratégiques réalisées en fin d'année 2011 sont désormais intégrées au sein du Groupe. Zurich Santander a ainsi apporté une contribution de 5,2 milliards d'USD à la croissance des primes émises brutes et des dépôts à caractère de placement, ainsi qu'un bénéfice d'exploitation de 165 millions d'USD.

Le rendement des fonds propres ordinaires (ROE) est passé de 11,9% en 2011 à 11,8% en 2012, soit une baisse de 0,1 point imputable en grande partie à l'augmentation des fonds propres attribuables aux actionnaires. Le rendement du bénéfice d'exploitation (après impôts) sur les fonds propres ordinaires (BOPAT ROE) s'élève à 9,3%, en baisse de 0,9 point par rapport à 2011.

Le bénéfice dilué par action a augmenté de 10%, à 24.66 CHF pour l'exercice arrêté au 31 décembre 2012, contre 22.52 CHF en 2011. Dans le même temps, le bénéfice net attribuable aux actionnaires a augmenté de 3%. Ce décalage s'explique par l'impact des écarts de conversion avec un taux de change USD/CHF en moyenne plus élevé en 2012 que sur la même période en 2011.

Par rapport au 31 décembre 2011, les placements du Groupe ont augmenté de 11,0 milliards d'USD, soit 6%, pour atteindre 208,7 milliards d'USD. La gestion actif-passif du Groupe reste disciplinée et le Groupe continue de réduire de façon ciblée les risques qui ne lui semblent pas dûment rémunérés. La qualité du portefeuille de placements du Groupe demeure élevée. Les titres dont la notation est supérieure ou équivalente à BBB- représentent toujours 98% du portefeuille d'obligations et titres assimilés du Groupe.

Les ratios de fonds propres et de solvabilité du Groupe restent excellents, confortés par ses stratégies disciplinées en matière de placement et de souscription, axées en permanence sur la gestion des risques. Les fonds propres attribuables aux actionnaires ont augmenté de 3,0 milliards d'USD par rapport à l'exercice arrêté au 31 décembre 2011, à 34,5 milliards d'USD. Ce chiffre tient compte du montant de 2,8 milliards d'USD de dividendes versés en avril 2012.

Le test suisse de solvabilité (SST) est entré en vigueur au 1er janvier 2011 et revêt un caractère obligatoire. À ce titre, le Groupe est tenu d'utiliser un modèle interne spécifique à l'entreprise pour calculer les risques encourus et un objectif de fonds propres, ainsi que de produire chaque semestre des rapports SST. Le 1er juillet 2012, le Groupe a déclaré, sur une base consolidée, un ratio de capitalisation SST de 178%, contre 183% au 1er janvier 2012 après examen de la FINMA. Le modèle interne reste soumis à l'agrément de cette dernière.

### General Insurance

Le bénéfice d'exploitation du segment assurance dommages s'est élevé à 2,1 milliards d'USD, en baisse de 150 millions d'USD, soit 7%. Cette diminution s'explique par une érosion des produits nets de placements, en partie compensée par un meilleur résultat technique net. Ce dernier a profité de l'amélioration du taux de sinistres sous-jacent, qui a plus que compensé l'évolution moins favorable des provisions techniques constituées les années précédentes, notamment en Allemagne en raison de l'augmentation des provisions pour sinistres relatives à des risques à liquidation lente assurés lors des années précédentes et de la hausse des commissions versées car le portefeuille d'activités accorde une place plus importante aux produits avec des commissions plus élevées.

Les primes émises brutes et accessoires de primes du segment assurance dommages ont atteint 35,6 milliards d'USD, en hausse de 1,0 milliard d'USD, soit 3%, en raison notamment des hausses tarifaires. La croissance rentable sur des marchés cibles reste la grande priorité et le segment a continué de profiter de l'environnement tarifaire favorable dans toutes les régions, ce qui lui a permis d'augmenter ses tarifs de 4% en moyenne. Les primes ont continué d'augmenter dans le marché nord-américain, parvenu à maturité. Si une partie de cette hausse s'explique par les réajustements de primes pour les polices de l'exercice antérieur dans la mesure où l'estimation initiale des risques assurés a été revue à la hausse pour refléter les expositions réelles, on observe également des améliorations aussi bien dans la rétention des clients que dans les affaires nouvelles. Dans les International Markets, Zurich Santander et Zurich Insurance Malaysia Berhad ont contribué à la croissance des primes, outre la croissance organique des activités existantes. En Europe, les volumes de primes sont restés sous pression en raison de la conjoncture économique sur tous les marchés importants et des efforts d'amélioration dans certains portefeuilles, tels que l'assurance automobile des particuliers.

*«Les ratios de fonds propres et de solvabilité du Groupe restent excellents, confortés par ses stratégies disciplinées axées en permanence sur la gestion des risques.»*

**Global Life**

Le bénéfice d'exploitation du segment assurance-vie est resté globalement stable, à 1,3 milliard d'USD, avec une contribution positive de la part de Zurich Santander évaluée à 105 millions d'USD, nette des intérêts minoritaires et des frais liés à la clause d'indexation sur les bénéfices futurs. Cette contribution positive a été largement neutralisée par une contribution plus faible de l'Europe, en raison notamment de charges non récurrentes en Allemagne. Les autres sources de bénéfices sont restées stables dans l'ensemble, avec l'amélioration de la marge de risque et de la marge sur frais grâce à la poursuite du recentrage sur les produits de prévoyance et de type «unit-linked». Cette amélioration a été contrebalancée par une érosion de la marge sur les placements liée à la baisse des rendements des placements.

Les primes émises brutes, accessoires de primes et dépôts à caractère de placement du segment assurance-vie ont atteint 30,3 milliards d'USD, en hausse de 2,5 milliards soit 9%. Elles ont profité de la contribution de Zurich Santander, ainsi que des volumes plus élevés de produits à prime unique dans Corporate Life & Pensions et Private Banking Client Solutions, en partie neutralisés par une baisse de volumes d'affaires en Espagne, où le portefeuille de produits continue d'accorder une place accrue aux produits de prévoyance à marge élevée au détriment des produits d'épargne.

**Farmers**

Le bénéfice d'exploitation de Farmers s'élève à 1,4 milliard d'USD, en baisse de 72 millions d'USD, soit 5%, en raison surtout d'une perte nette de souscription enregistrée par Farmers Re. Le bénéfice d'exploitation de Farmers Management Services a atteint 1,4 milliard d'USD, en hausse de 71 millions d'USD, soit 5%, sous l'effet de l'augmentation des primes acquises brutes des Farmers Exchanges, qui sont gérés mais non détenus par Farmers Group, Inc., filiale détenue à 100% par le Groupe. Le bénéfice d'exploitation de Farmers Re a diminué de 142 millions d'USD, avec à la clé une perte de 26 millions d'USD qui reflète surtout l'absence d'évolution favorable des provisions techniques constituées les années précédentes par rapport à l'exercice 2011, ainsi que les sinistres liés aux conditions météorologiques qui, une nouvelle fois, ont été nettement supérieurs aux niveaux historiques. Cela a été en partie compensé par une amélioration en glissement annuel du taux de sinistres sous-jacent.

Les commissions de gestion et autres produits assimilés de Farmers Management Services s'élèvent à 2,8 milliards d'USD, en hausse de 79 millions d'USD, soit 3%. L'augmentation de 24%, à 4,4 milliards d'USD, des primes émises brutes de Farmers Re reflète les modifications apportées au contrat de réassurance «All Lines quota share» avec les Farmers Exchanges et la croissance des primes émises brutes des Farmers Exchanges.

Les primes émises brutes des Farmers Exchanges ont atteint 18,9 milliards d'USD, en hausse de 637 millions d'USD, soit 3%. Cette augmentation est liée à l'augmentation constante des primes dans toutes les branches d'activités, qui résulte des hausses tarifaires en cours visant à améliorer la rentabilité, une politique qui a abouti à une légère baisse du nombre de polices en vigueur.

# Gouvernance

**Dans cette section**

# Rapport sur la gouvernance d'entreprise

Grâce à une gouvernance d'entreprise bien conçue, Zurich peut créer une valeur durable pour ses actionnaires, clients, collaborateurs et autres parties prenantes.

Le présent rapport décrit les structures, règles et processus que nous avons mis en place afin de permettre au Conseil d'administration et à la Direction générale de Zurich d'assurer une gouvernance efficace. Ce rapport fait également état du travail accompli par le Conseil d'administration et de ses comités.

## Sommaire

## Introduction

Zurich Insurance Group, composé de Zurich Insurance Group SA et ses sociétés affiliées (le «Groupe» ou «Zurich») s'engage à pratiquer une gouvernance d'entreprise efficace, fondée sur les principes de l'équité, de la transparence et de la responsabilité dans l'intérêt de ses actionnaires, ses clients, ses collaborateurs et autres parties prenantes. Les structures, les règlements et les processus sont conçus de manière à assurer une organisation et une direction des affaires correctes au sein de Zurich ainsi qu'à définir les pouvoirs et les responsabilités de ses organes et collaborateurs.

Le présent rapport décrit l'approche du Groupe en matière de gouvernance d'entreprise et en présente les éléments clés. Il inclut les informations exigées par les règlements suivants:

- Directive concernant les informations relatives à la gouvernance d'entreprise de la SIX Swiss Exchange (version du 29 octobre 2008 entrée en vigueur le 1er juillet 2009);

- Code suisse de bonne pratique pour la gouvernance d'entreprise, publié en 2002 par economiesuisse, dans sa version modifiée d'octobre 2007.

- Le Groupe continue de publier une Déclaration de gestion des risques et de contrôle interne (voir pages 54 et 55) conformément aux directives sur le contrôle interne «Internal Control: Revised Guidance to Directors on the UK Corporate Governance Code» (connues autrefois sous l'appellation «Turnbull Guidance») depuis octobre 2005 au Royaume-Uni.

Zurich Insurance Group SA est cotée à la SIX Swiss Exchange. Certaines sociétés du Groupe ont des obligations cotées émises dans le cadre du programme Euro Medium Term Note et d'autres instruments financiers.

Zurich Insurance Group est assujetti à la surveillance des groupes par l'Autorité fédérale suisse de surveillance des marchés financiers (FINMA) et par l'autorité qui la précédait, l'Office fédéral des assurances privées (OFAP) depuis la publication d'un décret correspondant en avril 2001. Dans son décret du 28 décembre 2011, la FINMA stipule que Zurich est soumise à la surveillance des groupes d'assurance en vertu de l'article 64 et suivants de la Loi fédérale sur la surveillance des entreprises d'assurance («LSA») et n'est plus qualifiée de conglomérat. Par ailleurs, la Commission paritaire des autorités de surveillance européennes donné au Groupe une nouvelle désignation, abandonnant l'appellation «conglomérat d'assurance» en faveur de «groupe d'assurance», au vu de la taille réduite des activités hors assurance du Groupe. La LSA impose aux entreprises et aux groupes d'assurance suisses d'instaurer et d'entretenir des systèmes de gouvernance et de gestion des risques performants ainsi que des systèmes de contrôle interne efficaces adaptés à leurs activités commerciales. Elle prescrit le calcul d'une marge de solvabilité fondée sur les risques tant au niveau du Groupe que de ces entités légales, conformément au Test suisse de solvabilité (SST), de même qu'une marge de Solvabilité I (qui fera probablement double emploi lorsque la surveillance des entreprises d'assurance suisses sera reconnue équivalente aux règlements Solvabilité II de l'UE). Le compte rendu de toutes les grandes transactions internes du Groupe s'inscrit aussi dans la surveillance du Groupe en Suisse. Hormis la surveillance du Groupe, de Zurich Compagnie d'Assurances SA et de Zurich Compagnie d'Assurances sur la Vie SA exercée par la FINMA, les filiales d'assurance et les autres prestataires de services financiers du Groupe sont surveillés par des autorités de surveillance locales compétentes.

Les principes de la gouvernance d'entreprise et les normes décrites ci-dessus sont intégrés dans de nombreux documents publiés par l'entreprise, en particulier dans les statuts, les règlements organisationnels ainsi que les chartes des comités du Conseil d'administration. Le comité de gouvernance et des nominations, qui supervise la gouvernance du Groupe, la compare régulièrement aux meilleures pratiques reconnues et veille à ce qu'elle soit conforme aux exigences qui lui sont propres.

Une structure efficace est en place afin d'assurer la coopération entre le Conseil d'administration de Zurich Insurance Group SA, la Direction générale et les fonctions de contrôle interne. Cette structure veille à équilibrer les responsabilités. Elle a également pour but d'assurer l'indépendance institutionnelle du Conseil d'administration vis-à-vis du Chief Executive Officer du Groupe (CEO) et du Comité exécutif du Groupe (GEC), responsables de la gestion du Groupe au quotidien. Le Conseil d'administration de Zurich Insurance Group SA est composé uniquement de membres sans pouvoir exécutif et indépendants de la Direction générale. Le président du Conseil d'administration et le CEO ont des rôles distincts, ce qui garantit la séparation des pouvoirs entre les fonctions et assure l'autonomie du Conseil d'administration.

# Rapport sur la gouvernance d'entreprise *suite*

La structure du présent rapport suit pour l'essentiel les recommandations formulées dans la Directive concernant les informations relatives à la gouvernance d'entreprise de la SIX Swiss Exchange. Le chapitre consacré aux rémunérations et participations des membres du Conseil d'administration et des membres du GEC, ainsi qu'aux prêts qui leur sont octroyés, fait l'objet d'un rapport distinct: le Rapport sur les rémunérations (voir pages 56 à 81), qui complète le présent Rapport sur la gouvernance d'entreprise. Il contient également les informations requises par la Circulaire 2010/1 sur les systèmes de rémunération (normes minimales des systèmes de rémunération dans les établissements financiers) publiée par l'Autorité fédérale de surveillance des marchés financiers (FINMA) le 21 octobre 2009, dans sa version modifiée du 1er juin 2012.

## Les principales évolutions de la gouvernance en 2012 en un coup d'oeil

au 31 décembre 2012

| Conseil d'administration | Comité exécutif du Groupe | Autres |
|---|---|---|
| Elections:<br>• Josef Ackermann, ancien vice-président élu président[1]<br>• Tom de Swaan, ancien membre, élu vice-président[1]<br>• Alison Carnwath, nouvellement élue administratrice[2]<br>• Rafael del Pino, nouvellement élu administrateur[2]<br>Départs:<br>• Manfred Gentz, ancien président<br>• Vernon Sankey, administrateur et ancien président du comité des rémunérations | Nouvelles nominations:<br>• Jeff Dailey, CEO Farmers Group, Inc.<br>• Mike Kerner, CEO General Insurance<br>• Yannick Hausmann, Group General Counsel<br>Départs:<br>• Mario Greco, ancien CEO General Insurance<br>• Christian Orator, ancien Chief Administrative Officer | • Simplification de la structure organisationnelle au siège central:<br>- l'entreprise a suspendu le poste de Chief Administrative Officer (CAO)<br>- Intégration de certains domaines de responsabilité de ce mandat dans d'autres fonctions.<br>• Ann Haugh nommée au nouveau poste de Chief of Staff |

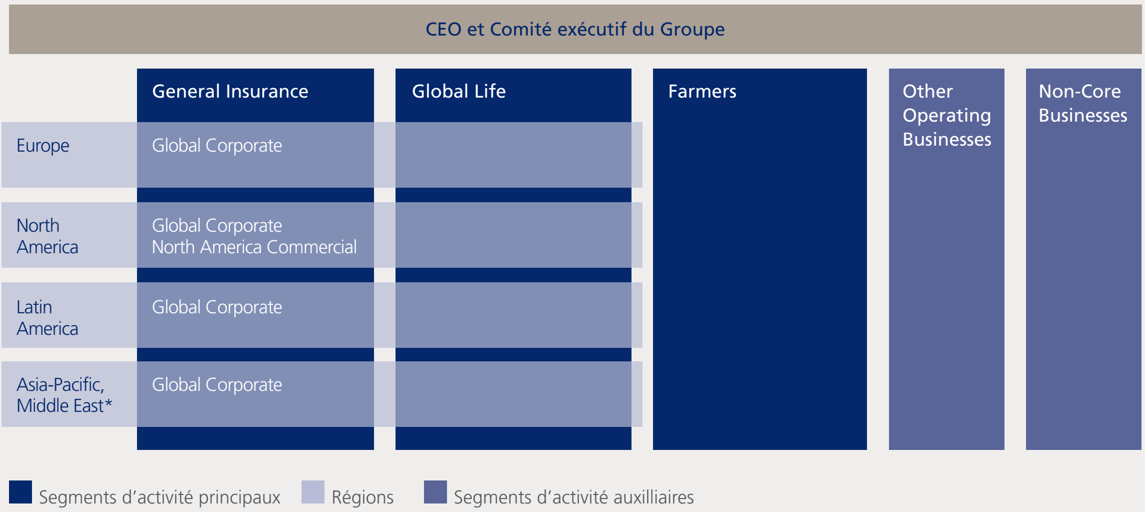
[1]Elu par le Conseil d'administration [2]Elu par l'Assemblée générale

## Structure du Groupe et actionnaires

### Structure opérationnelle du Groupe

Zurich Insurance Group SA, la société holding du Groupe, est une société suisse organisée en conformité avec la législation suisse. Au cours des dernières années, Zurich a allégé son portefeuille d'activités pour se concentrer sur l'assurance. Le Conseil d'administration, qui souhaitait se faire l'écho de cette priorité stratégique, a proposé de remplacer la référence aux services financiers dans la raison sociale de la société en mettant l'accent sur l'activité d'assurance du Groupe. Il a proposé, lors de l'Assemblée générale ordinaire du 29 mars 2012, de changer la raison sociale en Zurich Insurance Group SA, qui a été approuvée par les actionnaires.

## Structure opérationnelle du Groupe
au 31 décembre 2012




*Inclut l'Afrique pour General Insurance

Le Groupe poursuit une stratégie centrée sur les clients et est géré sur un modèle matriciel correspondant à la fois aux branches d'activités et à la répartition géographique. Le GEC est présidé par le CEO. Les CEO de General Insurance, Global Life et Farmers ainsi que le Chief Financial Officer (CFO), le Chief Investment Officer (CIO), le Chief Risk Officer (CRO), le Group Head of Operations et le Group General Counsel sont membres du GEC. Les secteurs géographiques Europe, North America, Latin America et Asia-Pacific, Middle East and Africa y compris, sont représentés par les présidents régionaux – ceux des régions Europe, North America, Asia-Pacific, Middle East and Africa y compris, sont actuellement membres du GEC – lesquels ont pour mission principale de gérer les relations avec les diverses parties prenantes et de développer les affaires dans leur région respective. Pour de plus amples informations sur le GEC, veuillez consulter les pages 40 à 48.

Les segments opérationnels du Groupe ont été identifiés en fonction des activités menées par le Groupe et de la manière dont ils sont stratégiquement gérés, dans l'objectif de proposer des produits et services différents aux divers groupes de clients. Les segments du Groupe qui font l'objet de rapports distincts sur la performance financière sont General Insurance, Global Life et Farmers, considérés comme les segments principaux du Groupe:

- General Insurance est le segment par le biais duquel le Groupe propose divers produits et services d'assurance auto, habitation et commerciale aux particuliers ainsi qu'aux petites et grandes entreprises.

- Global Life poursuit une stratégie fondée sur des offres de premier plan sur le marché des produits «unit-linked», des produits de prévoyance et pour entreprises, par l'entremise d'une distribution mondiale et des piliers d'offres ayant pour objectif de se tailler une position de leader dans les marchés sélectionnés.

- Par le biais de Farmers Group, Inc. et de ses filiales (FGI), Farmers fournit aux Farmers Exchanges certains services de gestion dissociés des sinistres. FGI perçoit des commissions en échange de la prestation de services aux Farmers Exchanges, qui sont gérés mais non détenus par Farmers Group, Inc, une filiale à 100% du Groupe. Ce segment englobe également tous les contrats de réassurance acceptés par le Groupe auprès des Farmers Exchanges. Les Farmers Exchanges sont assureurs de premier plan aux États-Unis dans le domaine de l'assurance des particuliers et des petites entreprises.

Sont pris en considération pour la performance financière les segments principaux du Groupe: General Insurance, Global Life et Farmers. Les autres segments d'activité sont les suivants:

- Other Operating Businesses correspondent essentiellement aux activités du siège du Groupe et aux activités de holding et de financement. Ces dernières englobent certaines positions de placement alternatives non allouées aux segments opérationnels de l'entreprise.

# Rapport sur la gouvernance d'entreprise *suite*

- Non-Core Businesses regroupent les activités d'assurance que le Groupe considère comme étant en marge des activités du métier d'assureur et qui, par conséquent, sont surtout gérées pour obtenir une liquidation bénéficiaire. Non-Core Businesses englobe également les activités bancaires restantes du Groupe. Ces activités auxiliaires sont principalement situées aux États-Unis, aux Bermudes, au Royaume-Uni et en Irlande.

À un niveau secondaire, la gestion du segment General Insurance repose sur des activités au contact du marché, dont Global Corporate, North America Commercial, Europe, Latin America et Asia-Pacific, Middle East and Africa. La gestion du segment Global Life, en revanche, est régionale, mais s'inscrit dans un cadre international, incluant les régions America, Latin America, Europe, Asia-Pacific et Middle East.

Un examen détaillé des résultats par segment d'activité pour l'exercice 2012 est présenté dans la section Operating and financial review, à la page 84. Par ailleurs, un aperçu des points forts et des activités commerciales du Groupe est présenté dans le Compte rendu des activités disponible sur le site internet de Zurich www.zurich.com (http://www.zurich.com/internet/main/sitecollectiondocuments/financial-reports/annual-review-2012-fr.pdf).

Une liste des principales filiales du Groupe avec de plus amples informations sur les principales filiales cotées figure aux pages 283 à 285. Pour de plus amples informations sur la cotation de l'action de Zurich Insurance Group SA, veuillez consulter les informations pour les actionnaires aux pages 348 à 350.

### Principaux actionnaires

Conformément aux règles relatives à la déclaration des participations significatives dans les sociétés suisses cotées en Suisse, une déclaration doit être faite à partir d'un seuil de 3% ou si les participations diminuent par la suite sous ces seuils. Les options d'achat et autres instruments financiers doivent être ajoutés à toutes les positions d'actions, même s'ils permettent uniquement le règlement en espèces. Aux termes de ce régime, une déclaration doit avoir lieu séparément pour les positions d'achat (y compris les actions, les options d'achat position acheteur et les options de vente position vendeur) et les positions de vente (y compris les options de vente position acheteur et les options d'achat position vendeur). Les seuils de pourcentage sont calculés sur la base du montant total des droits de vote tels qu'inscrits au registre du commerce.

Zurich Insurance Group SA est dans l'obligation d'annoncer les participations détenues par des tiers dans son capital après notification par le tiers qu'un seuil a été franchi. Au cours de l'année 2012, le Groupe a reçu plusieurs notifications de tiers déclarant qu'ils avaient dépassé ou n'atteignaient plus le seuil de 3% suite à des opérations d'achat ou de vente.

Au 31 décembre 2012, à la connaissance de Zurich Insurance Group SA, aucune personne ou aucun établissement autre que BlackBock, Inc., New York, et Norges Bank, Oslo, ne détenait, directement ou indirectement, des participations en tant qu'ayant droit économique d'actions, de droits d'option et/ou de droits de conversion sur des actions de Zurich Insurance Group SA représentant 3% ou plus des actions émises.

Vous trouverez les annonces respectives en utilisant le moteur de recherche intégré au site internet de l'Instance pour la publicité des participations de la SIX: http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_fr.html.

Zurich Insurance Group SA n'a pas connaissance de personnes ou d'établissements qui, en date du 31 décembre 2012, directement ou indirectement, seuls ou avec d'autres, exerçaient un contrôle ou étaient partie à un accord quelconque visant à exercer un contrôle sur Zurich Insurance Group SA.

## Aperçu de la structure de l'actionnariat

Nombre de parts détenues

| au 31 décembre 2012 | Nombre d'actionnaires inscrits | % du capital-actions inscrit |
|---|---|---|
| 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 des actions inscrites | 124 847 | 100,0 |

Répartition des actionnaires inscrits par catégorie

| au 31 décembre 2012 | Actionnaires inscrits en % | Actions inscrites en % |
|---|---|---|
| Particuliers | 95,5 | 24,7 |
| Entités juridiques | 3,8 | 26,2 |
| Nominees, fiduciaires | 0,7 | 49,1 |
| **Total** | **100,0** | **100,0** |

Répartition géographique des actionnaires inscrits

| au 31 décembre 2012 | Actionnaires inscrits en % | Actions inscrites en % |
|---|---|---|
| Suisse | 93,3 | 43,3 |
| Royaume-Uni | 1,5 | 30,0 |
| Amérique du Nord | 0,9 | 11,9 |
| Asie | 0,2 | 1,1 |
| Amérique latine | 0,1 | 0,1 |
| Reste du monde | 4,0 | 13,6 |

### Participations croisées

Zurich Insurance Group SA ne détient aucune participation dans une autre société excédant 5% des droits de vote de ladite société, qui détiendrait elle-même une participation au capital de Zurich Insurance Group SA excédant 5% des droits de vote de Zurich Insurance Group SA.

## Structure du capital

### Capital-actions

Au 31 décembre 2012, le capital-actions ordinaire de Zurich Insurance Group SA s'élevait à 14 830 012.30 CHF, divisé en 148 300 123 actions nominatives entièrement libérées d'une valeur nominale de 0.10 CHF chacune. Le Conseil d'administration proposera aux actionnaires, lors de l'Assemblée générale ordinaire du 4 avril 2013, le paiement d'un dividende de 17.00 CHF par action. Ce paiement provenant de la réserve d'apport en capital, il sera exonéré de l'impôt anticipé suisse.

### Capital-actions autorisé et conditionnel

Au 31 décembre 2012, conformément à l'article 5$^{bis}$(1) des statuts, le Conseil d'administration de Zurich Insurance Group SA est autorisé à augmenter, jusqu'au 29 mars 2014 au plus tard, le capital-actions d'un montant maximal de 1 000 000 CHF, soit 10 millions d'actions nominatives entièrement libérées d'une valeur nominale de 0.10 CHF chacune. Conformément à l'article 5$^{ter}$(1a) des statuts, le capital-actions conditionnel de Zurich Insurance Group SA peut être augmenté d'un montant ne dépassant pas 1 000 000 CHF par l'émission de 10 millions d'actions nominatives entièrement libérées d'une valeur nominale de 0.10 CHF chacune en exerçant des droits de conversion et/ou d'option accordés dans le cadre de l'émission d'obligations ou de titres d'emprunt similaires par Zurich Insurance Group SA ou l'une des sociétés du Groupe sur les marchés de capitaux nationaux ou internationaux, et/ou des droits d'option accordés aux actionnaires. Il existe par ailleurs un capital-actions conditionnel supplémentaire de 299 513.60 CHF,

# Rapport sur la gouvernance d'entreprise *suite*

tel que mentionné à l'article 5ter(2a) des statuts, représentant 2 995 136 actions nominatives entièrement libérées d'une valeur nominale de 0.10 CHF chacune, pouvant être émises en faveur des collaborateurs du Groupe. Pour de plus amples informations sur la structure du capital et le capital-actions autorisé et conditionnel, veuillez consulter les Consolidated Financial Statements audités, note 22, aux pages 237 et 238.

**Modifications du capital-actions en 2012**
Au cours de l'année 2012, 914 301 actions ont été émises en faveur des collaborateurs à partir du capital conditionnel. En conséquence, au 31 décembre 2012, le capital-actions s'élevait à 14 830 012.30 CHF (148 300 123 actions); le capital autorisé ainsi que le capital-actions conditionnel (tel que spécifié respectivement dans l'article 5bis(1) et l'article 5ter(1a) des statuts), s'élevaient à 1 000 000 de CHF (10 millions d'actions) et l'autre capital-actions conditionnel (tel que spécifié dans l'article 5ter(2a) des statuts) s'élevait à 299 513.60 CHF (2 995 136 actions).

**Modifications du capital-actions en 2011**
Au cours de l'année 2011, 798,926 actions ont été émises en faveur des collaborateurs à partir du capital conditionnel. En conséquence, au 31 décembre 2011, le capital-actions s'élevait à 14 738 582.20 CHF (147 385 822 actions); le capital autorisé ainsi que le capital-actions conditionnel (tel que spécifié respectivement dans l'article 5bis(1) et l'article 5ter(1a) des statuts), s'élevaient à 1 000 000 de CHF (10 millions d'actions) et l'autre capital-actions conditionnel (tel que spécifié dans l'article 5ter(2a) des statuts) s'élevait à 390 943.70 CHF (3 909 437 actions).

Résumé des variations du capital-actions ordinaire au cours deux dernières années

| | Capital-actions en CHF | Nombre d'actions | Valeur nominale en CHF |
|---|---|---|---|
| Au 31 décembre 2010 | 14 658 689.60 | 146 586 896 | 0.10 |
| Actions nouvellement émises à partir du capital conditionnel | 79 892.60 | 798 926 | 0.10 |
| Au 31 décembre 2011 | 14 738 582.20 | 147 385 822 | 0.10 |
| Actions nouvellement émises à partir du capital conditionnel | 91 430.10 | 914 301 | 0.10 |
| Au 31 décembre 2012 | 14 830 012.30 | 148 300 123 | 0.10 |

Pour obtenir des informations sur les variations du capital-actions au cours de l'exercice 2010, veuillez consulter le Rapport de gestion 2011 de Zurich Insurance Group, pages 26 à 27, pages 160 à 161 et pages 227 à 228.

**Actions et bons de participation**
Les actions de Zurich Insurance Group SA sont des actions nominatives d'une valeur nominale de 0.10 CHF chacune. Ces actions sont entièrement libérées. Conformément à l'article 14 des statuts, chaque action donne droit à une voix aux Assemblées des actionnaires et autorise le détenteur inscrit au registre des actions à exercer tous les autres droits liés à l'action.

Certaines participations en actions sont détenues par des investisseurs sous la forme d'American Depositary Receipts (ADR)[1]. Au 31 décembre 2012, les investisseurs détenaient 24 376 020 ADR (représentant 2 437 602 actions de Zurich Insurance Group SA).

**Bons de jouissance**
Zurich Insurance Group SA n'a pas émis de bons de jouissance.

[1] Zurich Insurance Group SA a créé un programme d'American Depositary Share (ADS) de niveau 1 aux Etats-Unis. La Bank of New York Mellon Corporation est chargée d'émettre les ADS dans le cadre de ce programme. Chaque ADS donne droit à un dixième d'une action de Zurich Insurance Group SA et représente également les titres, liquidités et autres biens déposés à la Bank of New York Mellon Corporation mais non distribués aux détenteurs d'ADS. Les ADS de Zurich sont négociées de gré à gré (OTC) et matérialisées par des American Depositary Receipts (ADR). Depuis le 1er juillet 2010, les ADR de Zurich sont négociées sous la référence ZURVY sur «OTCQX», une plateforme électronique exploitée par OTC Markets Group Inc. (anciennement «Pink OTC Markets Inc.»). Les détenteurs d'ADS ne sont pas considérés comme des actionnaires de Zurich Insurance Group SA et ne sont pas en mesure de faire valoir ou d'exercer directement les droits rattachés à ce statut. Seule la Bank of New York Mellon Corporation, en tant que dépositaire du programme de niveau 1, peut être amenée à exercer les droits de vote conformément aux instructions données par les ayants droit économiques des ADR.

### Restrictions de transfert et inscriptions des nominees

Les statuts ne prévoient pas de restrictions de transfert, à l’exception des formalités suivantes:

L’inscription en tant qu’actionnaire nécessite une déclaration selon laquelle l’actionnaire a acquis les actions en son propre nom et pour son propre compte. Les nominees détenant des actions de Zurich Insurance Group SA peuvent se faire enregistrer pour le compte d’une autre personne ou en tant que nominees d’une autre personne pour un maximum de 200 000 actions avec droit de vote, sans égard au fait qu’ils n’aient pas dévoilé l’identité de l’ayant droit économique. Un nominee a cependant le droit de se faire enregistrer en tant qu’actionnaire avec droit de vote de plus de 200 000 actions s’il s’engage à dévoiler l’identité de chaque ayant droit économique et à informer les ayants droit économiques des agissements de la société, à les consulter en ce qui concerne l’exercice des droits de vote et des droits de souscription préférentiels, à transférer les dividendes et à agir dans l’intérêt et en conformité avec les instructions de l’ayant droit économique.

Il existe des dispositions spéciales concernant l’enregistrement d’actions et l’exercice des droits qui y sont rattachés, arrêtées par la Bank of New York Mellon Corporation en relation avec le programme ADR de Zurich Insurance Group SA.

### Emprunts convertibles et options

Zurich Insurance Group SA n’avait pas d’emprunts convertibles ou d’options en cours au 31 décembre 2012. Pour plus d’informations sur les programmes de stock-options en faveur des collaborateurs, veuillez consulter les Consolidated Financial Statements audités, note 24 aux pages 245 à 247.

# Conseil d’administration

Les relations entre notre Conseil d’administration et notre Direction générale sont structurées de manière à soutenir les deux entités dans la réalisation de leur engagement à servir. Cette structure réalise des contrôles et veille à équilibrer les responsabilités. Elle a également pour but d’assurer l’indépendance institutionnelle du Conseil d’administration vis-à-vis du Chief Executive Officer (CEO) et du Comité exécutif du Groupe.


1 Josef Ackermann
Président du Conseil d’administration,
président du comité de gouvernance et des nominations,
membre du comité des rémunérations

2 Tom de Swaan
Vice-président du Conseil d’administration,
président du comité des risques,
membre du comité de gouvernance et des nominations

3 Susan Bies
Administratrice,
membre du comité d’audit
membre du comité des risques

4 Alison Carnwath
Administratrice,
membre du comité des rémunérations

5 Victor L.L. Chu
Administrateur,
membre du comité de gouvernance et des nominations

6 Rafael del Pino
Administrateur,
membre du comité des rémunérations

7 Thomas K. Escher
Administrateur,
président du comité des rémunérations

8 Fred Kindle
Administrateur,
membre du comité d’audit

9 Armin Meyer
Administrateur,
membre du comité de gouvernance et des nominations,
membre du comité des risques

10 Don Nicolaisen
Administrateur,
président du comité d’audit,
membre du comité des risques

11 Rolf Watter
Administrateur,
membre du comité d’audit

# Conseil d'administration

Le Conseil d'administration, sous la direction du président, a pour mission de définir la stratégie générale du Groupe et la surveillance de la haute direction. Il détient le pouvoir de décision en dernier ressort pour Zurich Insurance Group SA, sauf pour les décisions réservées aux actionnaires.

## Conseil d'administration et ses comités

au 31 décembre 2012

**Conseil d'administration**

| | | | |
|---|---|---|---|
| Josef Ackermann* | Alison Carnwath | Thomas Escher | Don Nicolaisen |
| Tom de Swaan | Victor L.L. Chu | Fred Kindle | Rolf Watter |
| Susan Bies | Rafael del Pino | Armin Meyer | |

| Comité de gouvernance et des nominations | Comité des rémunérations | Comité d'audit | Comité des risques |
|---|---|---|---|
| Josef Ackermann* | Thomas Escher* | Don Nicolaisen* | Tom de Swaan* |
| Armin Meyer | Josef Ackermann | Fred Kindle | Don Nicolaisen |
| Tom de Swaan | Alison Carnwath | Susan Bies | Susan Bies |
| Victor L.L. Chu | Rafael del Pino | Rolf Watter | Armin Meyer |

* Président du Conseil d'administration ou du comité du Conseil d'administration

Les membres du Conseil d'administration sont élus par les actionnaires lors de l'Assemblée générale des actionnaires. Après chaque Assemblée générale des actionnaires, le Conseil d'administration se constitue lors de sa première séance et nomme un président et un vice-président parmi ses membres. Tous ses membres actuels sont des administrateurs sans pouvoir exécutif, indépendants de la Direction générale.

# Rapport sur la gouvernance d'entreprise *suite*

Membres du Conseil d'administration au 31 décembre 2012

| Nom | Nationalité | Né(e) | Fonction | Année d'entrée en fonction | Expiration du mandat actuel |
|---|---|---|---|---|---|
| Josef Ackermann | Suisse | 1948 | Président du Conseil d'administration<br>Président du comité de gouvernance et des nominations<br>Membre du comité des rémunérations | 2010 | 2015 |
| Tom de Swaan | Néerlandais | 1946 | Vice-président du Conseil d'administration<br>Président du comité des risques<br>Membre du comité de gouvernance et des nominations | 2006 | 2014 |
| Susan Bies | Américaine | 1947 | Administratrice<br>Membre du comité d'audit<br>Membre du comité des risques | 2008 | 2013 |
| Alison Carnwath | Britannique | 1953 | Administratrice<br>Membre du comité des rémunérations | 2012 | 2014 |
| Victor L.L. Chu | Britannique | 1957 | Administrateur<br>Membre du comité de gouvernance et des nominations | 2008 | 2013 |
| Rafael del Pino | Espagnol | 1958 | Administrateur<br>Membre du comité des rémunérations | 2012 | 2014 |
| Thomas Escher | Suisse | 1949 | Administrateur<br>Président du comité des rémunérations | 2004 | 2015 |
| Fred Kindle | Suisse | 1959 | Administrateur<br>Membre du comité d'audit | 2006 | 2014 |
| Armin Meyer | Suisse | 1949 | Administrateur<br>Membre du comité de gouvernance et des nominations<br>Membre du comité des risques | 2001 | 2013 |
| Don Nicolaisen | Américain | 1944 | Administrateur<br>Président du comité d'audit<br>Membre du comité des risques | 2006 | 2015 |
| Rolf Watter | Suisse | 1958 | Administrateur<br>Membre du comité d'audit | 2002 | 2013 |

À l'exception d'Alison Carnwath et de Rafael del Pino, dont les mandats ont débuté en mars 2012, tous les membres actuels du Conseil d'administration ont exercé leur mandat tout au long de l'année 2012. M. Gentz, ancien président de Zurich Insurance Group SA, et M. Stankey ont quitté le Conseil d'administration lors de l'Assemblée générale ordinaire 2012.

Tous les administrateurs de Zurich Insurance Group SA sont également membres du Conseil d'administration de Zurich Compagnie d'Assurances SA. M. Ackermann en préside le Conseil d'administration. Par ailleurs, M. de Swaan est membre du Conseil d'administration de Zurich Insurance plc et de Zurich Life Assurance plc en Irlande. Don Nicolaisen et Susan Bies sont membres du Conseil d'administration de Zurich Holding Company of America, Inc (ZHCA). Hormis Susan Bies, Don Nicolaisen et Tom de Swaan, les membres du Conseil d'administration n'occupent pas d'autres fonctions d'administrateurs au sein du Groupe.

M. Fritz Gerber est le président honoraire de Zurich Insurance Group SA. Il a été président de Zurich Compagnie d'Assurances SA entre 1977 et 1995 et Chief Executive Officer entre 1977 et 1991. En reconnaissance de ses qualités de dirigeant et des services rendus à l'entreprise, il a été nommé président honoraire. Ce titre ne lui donne droit ni à un siège au Conseil d'administration, ni aux prérogatives ou obligations correspondantes, ni à des honoraires d'administrateur.

**Composition du Conseil d’administration**

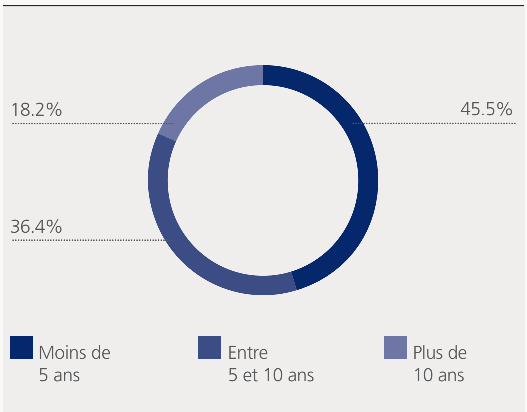
La diversité est un facteur clé de réussite dans un environnement international en constante évolution. Le Conseil d’administration de Zurich est composé de personnes aux parcours, expériences, compétences et connaissances très divers. L’équilibre qui en résulte permet au Conseil d’administration d’exercer ses fonctions et d’assumer ses responsabilités en tant que groupe tout en prenant pleinement en compte les besoins d’affaires actuels.

Aujourd’hui, cinq nationalités sont représentées au sein du Conseil d’administration. Les membres du Conseil d’administration ont acquis leur expérience dans de nombreux domaines et disposent ensemble d’une connaissance approfondie des pratiques commerciales à l’international. Le Conseil d’administration tire parti de la diversité des cultures, formations et parcours professionnels de ses membres, aussi bien dans les services financiers, la production, l’ingénierie, le droit et les affaires réglementaires.

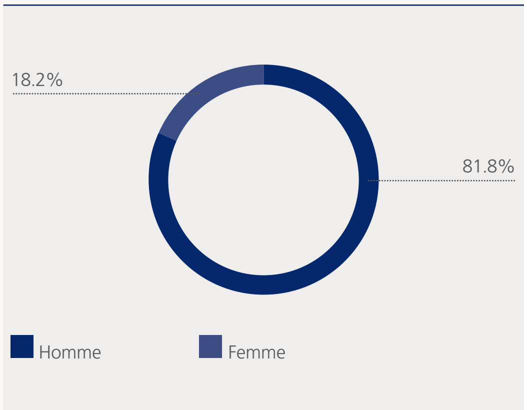
Le Conseil d’administration a proposé d’élire un nouveau membre au Conseil d’administration de Zurich Insurance Group SA en la personne de Monica Mächler lors de l’Assemblée générale ordinaire du 4 avril 2013. Monica Mächler mettrait ainsi sa grande compétence, sa connaissance approfondie du secteur de l’assurance et son expérience générale au service du Conseil d’administration. Son élection augmenterait ainsi le pourcentage de femmes siégeant au sein du Conseil d’administration à 27,2%.

Pour connaître en détail la composition du Conseil d’administration au 31 décembre 2012 (durée des mandats et représentation par sexe), veuillez consulter les graphiques suivants:

Composition du CA par durée de mandat
au 31 décembre 2012



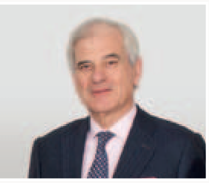

Composition du CA par sexe
au 31 décembre 2012



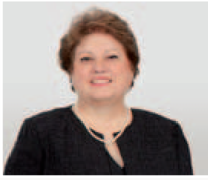
# Rapport sur la gouvernance d'entreprise *suite*

## Biographies

Josef Ackermann (1948), citoyen suisse
Président du Conseil d'administration
**Parcours professionnel:** Josef Ackermann est président de Zurich Insurance Group SA depuis mars 2012. Avant d'occuper cette fonction, il a exercé le mandat de vice-président pendant deux ans.
M. Ackermann a débuté sa carrière chez Schweizerische Kreditanstalt (SKA). En 1990, il est nommé membre exécutif du Conseil d'administration de SKA, dont il devient président en 1993. En 1996, M. Ackermann intègre le Comité de direction de la Deutsche Bank AG, où il dirige la division Investment Banking. En 2002, il devient porte-parole du Comité de direction et président du Comité exécutif du Groupe. M. Ackermann a présidé le Comité de direction de février 2006 à mai 2012.
**Mandats au sein de comités:** Comité de gouvernance et des nominations (président), Comité des rémunérations
**Autres fonctions de direction dans le Groupe:** Zurich Compagnie d'Assurances SA (président)
**Mandats externes:** M. Ackermann est membre du Conseil de surveillance de Siemens AG (deuxième vice-président) en Allemagne depuis 2003, membre du Conseil d'administration de Royal Dutch Shell plc aux Pays-Bas depuis 2008; membre du Conseil d'administration d'Investor AB, Suède depuis 2012 et vice-président du Conseil d'administration de Belenos Clean Power Holding SA à Bienne depuis 2008. Depuis 2012, il est aussi membre du Conseil consultatif international de la Commission de régulation bancaire de Chine (CBRC), de la Banque nationale du Koweït et de la banque turque Akbank. Il joue également un rôle actif au sein du Forum économique mondial (vice-président du Conseil de fondation), de la St Galler Stiftung für Internationale Studien (président), de la Fondation des Symposiums des lauréats de prix Nobel de Lindau au lac Constance (membre honoraire du Sénat) et, enfin, du Metropolitan Opera de New York (administrateur consultatif). Entre autres activités supplémentaires, M. Ackermann a accepté en 2007 d'enseigner la finance en tant que professeur invité à la London School of Economics. En juillet 2008, il a été nommé professeur honoraire à l'Université Johann-Wolfgang-Goethe de Francfort-sur-le-Main. En outre, il s'est vu décerner le titre d'«Honorary Fellow» par la London Business School et il est docteur honoris causa de l'Université Démocrite de Thrace, en Grèce. M. Ackermann est aussi membre du Conseil consultatif international du Lingnan (University) College de l'Université Sun Yatsen.
**Formation:** M. Ackermann a obtenu son doctorat en sciences économiques et sociales à l'Université de St-Gall, Suisse.



Tom de Swaan (1946), citoyen néerlandais
Vice-président du Conseil d'administration
**Parcours professionnel:** Tom de Swaan travaille dans le secteur bancaire des Pays-Bas depuis plus de 40 ans. Il a rejoint De Nederlandsche Bank NV en 1972 et, de 1986 à 1998, il en a été membre du Conseil d'administration. En janvier 1999, il est devenu membre du Conseil de gestion et Chief Financial Officer de la banque ABN AMRO. Il a quitté ABN AMRO en mai 2006 tout en restant conseiller du Conseil de gestion jusqu'en juin 2007. M. de Swaan a présidé du Amsterdam Financial Center de 1987 à 1988 et le sous-comité de surveillance bancaire de l'Institut monétaire européen de 1995 à 1997. Il a également été membre du Comité de Bâle pour le contrôle bancaire de 1991 à 1996 et son président de 1997 à 1998, ainsi que membre sans pouvoir exécutif du Conseil d'administration de la Financial Services Authority au Royaume-Uni de janvier 2001 à fin 2006.
**Mandats au sein de comités:** Comité des risques (président), Comité de gouvernance et des nominations
**Autres fonctions de direction dans le Groupe:** Zurich Compagnie d'Assurances SA, Zurich Insurance plc, Zurich Life Insurance plc
**Mandats externes:** M. de Swaan est membre sans pouvoir exécutif du Conseil d'administration de GlaxoSmithKline Plc et préside son comité d'audit depuis 2006. Depuis 2006, il est membre du Conseil de surveillance de Royal DSM, groupe néerlandais spécialisé dans la nutrition. Depuis 2007, il est vice-président du Conseil de surveillance de Royal Ahold, un groupe international de grande distribution. Depuis 2008, il est président du Conseil de surveillance de Van Lanschot NV, la société holding de F. van Lanschot Bankiers, une banque néerlandaise indépendante. Il siège également au Public Interest Committee de KPMG ELLP depuis 2010 et au Conseil consultatif international de la Banque nationale du Koweït. M. de Swaan est aussi membre du Conseil d'administration de plusieurs organisations à but non lucratif. Il est président du Conseil d'administration du Netherlands Cancer Institute, membre du Conseil d'administration du Concours international Franz Liszt de piano et président du Conseil consultatif de la Rotterdam School of Management.
**Formation:** M. de Swaan a achevé ses études à l'Université d'Amsterdam par un master en économie.



**Susan Bies** (1947), citoyenne américaine
Membre du Conseil d'administration
**Parcours professionnel:** Susan Bies siège au Conseil d'administration de Zurich Insurance Group SA depuis avril 2008. Elle a débuté sa carrière en 1970 au sein de la Federal Reserve Bank de St-Louis (Missouri) avant de devenir deux ans plus tard professeur assistante d'économie à la Wayne State University de Detroit (Michigan). En 1977, elle endosse une fonction similaire au Rhodes College de Memphis (Tennessee), et intègre en 1979 la First Tennessee National Corporation à Memphis, où elle restera jusqu'en 2001. Au cours des premières années, ses domaines de responsabilité incluent la planification tactique et le développement de l'entreprise. En 1984, elle devient Chief Financial Officer et présidente du comité des actifs-passifs. En 1995, elle devient vice-présidente avec pouvoir exécutif de la gestion des risques, ainsi qu'auditrice et présidente du comité exécutif de gestion des risques tout en continuant d'assumer ses fonctions au comité des actifs-passifs. De 2001 à 2007, elle est membre du Conseil des gouverneurs du Federal Reserve System. De 1996 à 2001, Susan Bies a fait partie de l'Emerging Issues Task Force du Financial Accounting Standards Board. De 2007 à 2008, elle a été membre du comité consultatif de la Securities and Exchange Commission pour l'amélioration de la présentation de l'information financière.
**Mandat au sein de comités:** Comité d'audit, Comité de gestion des risques
**Autres fonctions de direction dans le Groupe:** Zurich Compagnie d'Assurances SA, Zurich Holding Company of America, Inc.
**Mandats externes:** Susan Bies siège au Conseil d'administration de Bank of America depuis juin 2009 et au comité consultatif supérieur d'Oliver Wyman depuis 2009.
**Formation:** Susan Bies est titulaire d'une licence (BS) du State University College de Buffalo, New York. Elle est aussi titulaire d'un master (MA) de la Northwestern University d'Evanston, où elle a obtenu ensuite son doctorat.

**Alison Carnwath** (1953), citoyenne britannique
Membre du Conseil d'administration
**Parcours professionnel:** Alison Carnwath possède une grande expérience dans le secteur financier. Elle a débuté sa carrière chez Peat Marwick Mitchell, aujourd'hui KPMG, de 1975 à 1980, en tant qu'expert comptable. De 1980 à 1982, elle a travaillé comme conseillère financière dans le domaine du financement des entreprises chez Lloyds Bank International. De 1982 à 1993, elle a été directrice adjointe, puis directrice de J. Henry Schroder Wagg & Co à Londres et New York. De 1993 à 1997, Alison Carnwath a été associée principale de la société de conseils financiers Phoenix Partnership. Après la reprise de la société par Donaldson Lufkin Jenrette (DLJ) en 1997, Mme Carnwath a continué à travailler pour DLJ jusqu'en 2000. Alison Carnwath a exercé plusieurs mandats au sein de conseils d'administration. De 2000 à 2005, elle a présidé le Conseil d'administration de Vitec Group plc. Elle a siégé au Conseil d'administration de Welsh Water de 2001 à 2006, de Friends Provident plc de 2004 à 2007, de Gallaher Group de 2004 à 2007. Elle a aussi été présidente indépendante de MF Global Inc. de 2007 à 2010. D'autre part, elle a siégé au Conseil d'administration de Barclays de 2010 à 2012.
**Mandats au sein de comités:** Comité des rémunérations
**Autres fonctions de direction dans le Groupe:** Zurich Compagnie d'Assurances SA
**Mandats externes:** Mme Carnwath est Senior Advisor de Evercore Partners depuis 2011 et présidente indépendante du conseil d'administration de ISIS Equity Partners LLP depuis 2000. Elle est présidente du Conseil d'administration de Land Securities Group plc depuis 2008 et membre du Conseil d'administration de Man Group plc depuis 2001 et de PACCAR Inc depuis 2005.
**Formation:** Alison Carnwath a étudié l'économie et l'allemand à l'Université de Reading.

# Rapport sur la gouvernance d'entreprise *suite*

Victor L.L. Chu (1957), citoyen britannique
Membre du Conseil d'administration
**Parcours professionnel:** Victor L.L. Chu a 30 ans d'expérience en droit des sociétés, droit commercial et droit sur les valeurs mobilières avec une spécialisation pour la Chine et les transactions d'investissement régionales. Il a été secrétaire général adjoint de l'International Bar Association de 1995 à 2000. Au cours des 25 dernières années, il a assumé à plusieurs reprises les fonctions de directeur et de membre du conseil de la Bourse de Hong Kong. Il a été membre du Hong Kong Takeovers and Mergers Panel, membre du comité consultatif de la Hong Kong Securities and Futures Commission et aussi membre à temps partiel de la Central Policy Unit du gouvernement de Hong Kong. Il est autorisé à exercer la profession d'avocat en Angleterre et à Hong Kong.
**Mandat au sein de commissions:** Comité de gouvernance et des nominations
**Autres fonctions de direction dans le Groupe:** Zurich Compagnie d'Assurances SA
**Mandats externes:** Depuis 1988, Monsieur Chu est président de First Eastern Investment Group, société majeure d'investissement direct qui recherche des opportunités de placement en Chine et en Asie. Il dirige également First Eastern Investment Bank Limited depuis 2006 et FE Securities Limited depuis 1994. Il siège actuellement au Conseil de fondation du Forum économique mondial (WEF) et co-préside l'International Business Council du Forum. Victor Chu est aussi président du Comité de coopération économique Hong Kong/Union européenne, vice-président de l'Asia House à Londres et siège au sein du Conseil consultatif sur les affaires internationales auprès du maire de Londres.
**Formation:** Victor Chu est diplômé en droit du University College London (Bachelor of Laws), dont il est membre honoraire. Il a reçu en 2011 le Prix de l'économie globale décerné par l'Institut de l'économie mondiale de Kiel.

Rafael del Pino (1958), citoyen espagnol
Membre du Conseil d'administration
**Parcours professionnel:** Rafael del Pino possède à son actif plus de 30 ans d'expérience dans le management international. M. del Pino commence sa carrière chez Ferrovial avant de devenir consultant chez Boston Consulting Group à Paris. En 1986, il joint à nouveau Ferrovial. Il est CEO de Grupo Ferrovial de 1992 à 1999 et est désigné vice-président exécutif en 1999. M. del Pino est nommé président exécutif et directeur général de Ferrovial S.A. en 2000 et occupe toujours actuellement cette fonction. Pendant cette période, il a fait d'une société de construction essentiellement active au niveau national une entreprise de services d'infrastructure d'envergure mondiale. Par ailleurs, M. del Pino a siégé au Conseil d'administration de Banesto (Banco Español de Crédito S.A.) de 2003 à 2012.
**Mandats au sein de comités:** Comité des rémunérations
**Autres fonctions de direction dans le Groupe:** Zurich Compagnie d'Assurances SA
**Mandats externes:** M. del Pino siège au Conseil consultatif international de Blackstone depuis 2007. De par sa position en tant que membre de la MIT Corporation, de l'International Advisory Board de la IESE et du European Advisory Board de la Harvard Business School, il maintient le contact avec le monde académique.
**Formation:** M. del Pino est diplômé en génie civil de l'Universidad Politécnica de Madrid. Il est titulaire d'un MBA de MIT Sloan School of Management.

Thomas K. Escher (1949), citoyen suisse
Membre du Conseil d'administration
**Parcours professionnel:** M. Escher a acquis une grande expérience professionnelle dans les domaines des technologies de l'information et des services bancaires. Il a rejoint IBM en 1974, en tant que responsable pour plusieurs marchés internationaux. En 1996, M. Escher intègre la Société de Banque Suisse en tant que membre du Comité exécutif. Il occupera la fonction de CEO pour la plus grande zone de marché en Suisse et pour l'organisation des technologies de l'information. Après la fusion entre la Société de Banque Suisse et l'Union de Banques Suisses qui a donné naissance à UBS SA en 1998, il a dirigé le secteur d'activités informatique des divisions gestion de fortune et banque d'affaires jusqu'à la mi-2005, en tant que membre du Comité exécutif élargi du Groupe. M. Escher a occupé la fonction de vice-président du Business Group Global Wealth Management & Swiss Bank d'UBS SA en 2005.
**Mandats au sein de comités:** Comité des rémunérations (président)
**Autres fonctions de direction dans le Groupe:** Zurich Compagnie d'Assurances SA
**Mandats externes:** Depuis 2012, M. Escher siège au Conseil d'administration de Silent-Power AG à Cham, en Suisse, une entreprise spécialisée dans les nouvelles sources d'énergie.
**Formation:** M. Escher est diplômé en génie électrique et en sciences économiques de l'École polytechnique fédérale suisse (EPF).

**Fred Kindle** (1959), citoyen liechtensteinois et suisse
Membre du Conseil d'administration
**Parcours professionnel:** Fred Kindle possède une grande expérience professionnelle, acquise dans diverses fonctions. Il a débuté sa carrière chez Hilti SA, au Liechtenstein en 1984, en qualité de chef de projet marketing. De 1988 à 1992, il a été consultant auprès de McKinsey & Company à New York et Zurich. Il a ensuite rejoint Sulzer Chemtech SA en Suisse en tant que responsable du Mass Transfer Department et en 1996 a pris la direction de la Product Division. En 1999, il est nommé CEO de Sulzer Industries, l'un des deux groupes opérationnels de Sulzer SA. Deux ans plus tard, il devient CEO de Sulzer SA et siège au Conseil d'administration. Après avoir rejoint ABB Ltd. en 2004, M. Kindle est nommé CEO du Groupe ABB en janvier 2005, fonction qu'il assumera jusqu'en février 2008. Il devient ensuite associé de Clayton, Dubilier & Rice LLP, une société de private equity siègeant à New York et Londres.
**Mandats au sein de comités:** Comité d'audit
**Autres fonctions de direction dans le Groupe:** Zurich Compagnie d'Assurances SA
**Mandats externes:** En sa qualité d'associé de Clayton, Dubilier & Rice, M. Kindle occupe les fonctions de président de Exova Ltd., en Écosse depuis 2008, de BCA Group, au Royaume-Uni depuis 2010 et d'administrateur de Rexel SA, en France depuis 2009. Il siège également au Conseil d'administration de VZ Holding SA, à Zurich depuis 2002, et de Stadler Rail AG, à Bussnang depuis 2008.
**Formation:** M. Kindle est titulaire d'un diplôme d'ingénieur de l'École polytechnique fédérale suisse de Zurich (EPFZ) et d'un MBA de la Northwestern University d'Evanston, aux États-Unis.

**Armin Meyer** (1949), citoyen suisse
Membre du Conseil d'administration
**Parcours professionnel:** Armin Meyer a occupé un grand nombre de postes de direction au sein de diverses entreprises industrielles internationales. En 1976, il rejoint BBC Brown Boveri en tant qu'ingénieur de développement et prend la direction de la recherche et du développement des moteurs industriels en 1980. Il dirige le centre d'activités international pour les générateurs d'électricité à partir de 1984. En 1988, M. Meyer devient président d'ABB Drives SA et, en 1992, président d'ABB Power Generation Ltd. De 1995 à 2000, il est vice-président exécutif d'ABB SA et membre du Comité exécutif de ce groupe. En 1997, il devient membre du Conseil d'administration de Ciba Specialty Chemicals au moment de la scission avec Novartis. Il devient président du Conseil d'administration de Ciba Specialty Chemicals à l'automne 2000 et reste en poste jusqu'en avril 2009. Il assume en outre la fonction de Chief Executive Officer de janvier 2001 à décembre 2007. M. Meyer a siégé au Comité exécutif et au Conseil de fondation de l'Institute for Management Development (IMD) à Lausanne, en Suisse, jusqu'en décembre 2011. De 2001 à 2008, il a été membre du Conseil européen de l'industrie chimique (Cefic), à Bruxelles, en Belgique.
**Mandats au sein de comités:** Comité de gouvernance et des nominations, Comité des risques
**Autres fonctions de direction dans le Groupe:** Zurich Compagnie d'Assurances SA
**Mandats externes:** M. Meyer siège au Conseil d'administration d'Amcor Limited à Melbourne, en Australie, depuis 2010.
**Formation:** M. Meyer est titulaire d'un doctorat en génie électrique de l'École polytechnique fédérale suisse (EPF).

**Don Nicolaisen** (1944), citoyen américain
Membre du Conseil d'administration
**Parcours professionnel:** Don Nicolaisen dispose d'une grande expertise en comptabilité, audit de comptes et dans l'établissement de rapports financiers. Il a rejoint Price Waterhouse (devenue PricewaterhouseCoopers ou PwC), dont il est devenu associé en 1978. Il y a assumé diverses fonctions, y compris celle d'auditeur et de président de la division des services financiers. Au sein de cette société, il a dirigé le bureau national pour la comptabilité et les services de la Securities and Exchange Commission de 1988 à 1994 et a fait partie des Conseils d'administration américain et mondial de 1994 à 2001. De septembre 2003 à novembre 2005, il a été chef comptable au sein de la Securities and Exchange Commission aux États-Unis et le principal conseiller de la Commission chargée des questions de comptabilité et d'audit.
**Mandats au sein de comités:** Comité d'audit (président), Comité des risques
**Autres fonctions de direction dans le Groupe:** Zurich Compagnie d'Assurances SA, Zurich Holding Company of America, Inc.
**Mandats externes:** M. Nicolaisen est membre du Conseil d'administration de Verizon Communications, Inc. depuis 2005, de Morgan Stanley depuis 2006 et de MGIC Investment Corporation depuis 2006. Il siège parallèlement au comité consultatif de la Leventhal School of Accounting de la University of Southern California.
**Formation:** Don Nicolaisen est titulaire d'une licence (BBA) de l'Université du Wisconsin à Whitewater.

# Rapport sur la gouvernance d'entreprise *suite*

**Rolf Watter** (1958), citoyen suisse
Membre du Conseil d'administration
**Parcours professionnel:** Rolf Watter possède une grande expérience dans le droit des sociétés, notamment dans les transactions transfrontalières particulièrement complexes et les questions de gouvernance d'entreprise. Il est associé au sein du cabinet d'avocats Bär & Karrer SA à Zurich depuis 1994. Il a siégé au Comité exécutif du cabinet à partir de 2000 et a été administrateur avec pouvoir exécutif lors de la fondation de l'actuel Bär & Karrer SA en 2007 et ce jusqu'en septembre 2009. Rolf Watter enseigne à temps partiel à la faculté de droit de l'Université de Zurich.
Il a précédemment exercé le mandat de président sans pouvoir exécutif de Cablecom Holding SA de 2004 à 2008. Rolf Watter a aussi été administrateur sans pouvoir exécutif de Syngenta SA de 2000 à 2012, de Centerpulse SA de 2002 à 2003, de Forbo Holding SA de 1999 à 2005 et de Feldschlösschen Boissons SA de 2001 à 2004.
**Mandats au sein de comités:** Comité d'audit
**Autres fonctions de direction dans le Groupe:** Zurich Compagnie d'Assurances SA
**Mandats externes:** Rolf Watter est administrateur sans pouvoir exécutif de Nobel Biocare Holding SA depuis 2007 et en préside le Conseil d'administration depuis l'été 2012. Il est aussi administrateur sans pouvoir exécutif d'UBS Alternative Portfolio SA depuis 2000 et d'A.W. Faber-Castell AG depuis 1997.
Il siège à l'instance d'admission de la SIX et à sa commission d'experts sur la divulgation d'informations. Par ailleurs, dès mi-2013 Rolf Watter assumera la fonction de président sans pouvoir exécutif du Conseil d'administration de PostFinance SA. Il préside également deux organisations caritatives.
**Formation:** Rolf Watter est titulaire d'un doctorat en droit de l'Université de Zurich et d'un master en droit de l'Université de Georgetown, aux États-Unis. Il est admis au barreau du canton de Zurich.

L'adresse professionnelle de chacun des membres du Conseil d'administration est Mythenquai 2, 8002 Zurich, Suisse.

### Elections et mandats

Les statuts stipulent que le Conseil d'administration doit compter au moins sept membres et au plus treize membres. La durée de mandat ordinaire est de trois ans. À l'expiration de leur mandat, les membres peuvent être réélus immédiatement. Conformément aux directives en vigueur au sein du Groupe, les membres du Conseil d'administration ne peuvent y siéger pendant plus de douze ans et aucune personne de 70 ans ou plus ne peut être nommée au Conseil d'administration ou en rester membre, bien que certaines exceptions puissent être admises dans des circonstances particulières.

Les statuts stipulent que l'ordre de rotation doit être fixé de telle sorte qu'il n'y ait pas plus de quatre membres dont le mandat arrive à expiration en même temps à la date d'une Assemblée générale. L'élection d'un membre du Conseil d'administration est effectuée sur une base individuelle. Les membres sont élus à la majorité des voix représentées.

Lors de l'Assemblée générale ordinaire du 29 mars 2012, MM. Ackermann, Escher et Nicolaisen ont été réélus au Conseil d'administration pour une durée de trois ans. Alison Carnwath et Rafael del Pino ont été élus au Conseil d'administration pour deux ans.

Les mandats de Susan Bies et de MM. Chu, Meyer et Watter arriveront à expiration le jour de l'Assemblée générale ordinaire du 4 avril 2013. Susan Bies a été proposée à la réélection au Conseil d'administration pour un mandat de trois ans et Victor L.L. Chu a été proposé à la réélection au Conseil d'administration pour un mandat d'un an. Dans la mesure où les directives en vigueur au sein du Groupe limitent la durée totale des mandats à douze ans, le Conseil d'administration a proposé la réélection de M. Watter pour une durée d'un an car ce dernier atteindra la durée maximale d'exercice lors de l'Assemblée générale ordinaire 2014. M. Meyer, qui atteindra la durée maximale d'exercice lors de l'Assemblée générale ordinaire du 4 avril 2013, ne reconduira donc pas de nouveau mandat au sein du Conseil d'administration.

Monica Mächler a été proposée à l'élection au Conseil d'administration de Zurich Insurance Group SA pour une durée de trois ans. La décision sera prise lors de l'Assemblée générale ordinaire du 4 avril 2013. Le texte suivant vous en apprendra davantage sur le parcours de Monica Mächler:

**Monica Mächler** (1956), citoyenne suisse
**Parcours professionnel:** Monica Mächler a été vice-présidente du Conseil d'administration de l'Autorité fédérale de surveillance des marchés financiers (FINMA) de 2009 à 2012, après avoir dirigé l'Office fédéral suisse des assurances privées de 2007 à 2008. En 1990, elle intègre Zurich Insurance Group, où elle assume d'abord la fonction de Group General Counsel et Head of the Board Secretariat de 1999 à 2006; elle est nommée membre du Comité de direction du Groupe en 2001. De 1985 à 1990, elle a exercé sa profession d'avocate au sein d'un cabinet spécialisé en droit bancaire et droit commercial. Monica Mächler a présidé le Comité technique de l'Association internationale des contrôleurs d'assurance (AICA) de 2010 à 2012. Elle a siégé dans diverses commissions fédérales d'experts suisses dédiées à des projets de réglementation. Monica Mächler intervient, enseigne et publie régulièrement sur le droit des affaires international, les réglementations et leur impact.
**Mandats externes:** Monica Mächler est membre du Conseil de surveillance de Deutsche Börse AG depuis mai 2012.
**Formation:** Monica Mächler est titulaire d'un doctorat en droit de l'Université de Zurich et a suivi divers programmes de formation en droit britannique, droit américain et droit international privé. A l'issue de ses études, elle a été admise au barreau du canton de Zurich.



## Structure interne de l'organisation et responsabilités

Le Conseil d'administration est dirigé par le président ou, en son absence, par le vice-président. Différents thèmes lui sont présentés lors de ses réunions tout au long de l'année. Il est régulièrement informé des évolutions concernant le Groupe et reçoit à temps les informations, dont la forme et la qualité lui permettent de s'acquitter de ses obligations en conformité avec les normes de diligence mentionnées à l'article 717 du Code suisse des obligations.

Le Conseil d'administration est composé exclusivement d'administrateurs sans pouvoir exécutif, qui sont indépendants de la Direction générale et qui n'ont jamais exercé d'activités de direction opérationnelle au sein du Groupe. Le comité de gouvernance et des nominations vérifie chaque année l'indépendance des membres du Conseil d'administration et présente ses constatations au Conseil d'administration pour détermination finale. Les membres du Conseil d'administration sont aussi soumis à des règlements et consignes devant permettre d'éviter les conflits d'intérêts et réglementant l'utilisation des informations internes.

Une auto-évaluation de l'ensemble du Conseil d'administration a lieu une fois par an. En 2012, en raison des changements dans la composition du Conseil d'administration (nouveau président, deux nouveaux membres, changements dans la composition des comités du Conseil d'administration), il a été décidé que l'auto-évaluation du Conseil d'administration reposerait sur un questionnaire plus détaillé que ceux des années précédentes. Le questionnaire portait sur des aspects tels que le temps consacré par les membres du Conseil d'administration à certaines affaires, sur des questions relevant de la stratégie (clarté de la stratégie, processus de formation d'opinion sur la stratégie, surveillance de la mise en œuvre de la stratégie), sur la composition et la participation du Conseil d'administration, l'efficacité et l'efficience des séances, la qualité de la préparation des séances et l'efficacité générale du Conseil d'administration (atmosphère, interaction avec les cadres supérieurs, etc.). Un rapport détaillé a été rédigé pour le Conseil d'administration et étudié par ce dernier.

En raison de la séparation des fonctions de président du Conseil d'administration et de CEO et du fait que le Conseil d'administration soit exclusivement composé de membres sans pouvoir exécutif, il n'est pas nécessaire de nommer un administrateur en chef conformément au Code suisse de bonne pratique pour la gouvernance d'entreprise.

Le CEO assiste de plein droit aux séances du Conseil d'administration. Les membres du GEC sont régulièrement invités par le Conseil d'administration à assister à ses réunions. D'autres cadres dirigeants assistent parfois à ces réunions sur invitation du Conseil d'administration. La plupart des séances du Conseil d'administration comprennent des sessions privées sans la participation de la Direction générale.

Le Conseil d'administration élit parmi ses membres le président et le vice-président. Il procède également à la nomination du secrétaire.

Le Conseil d'administration doit se réunir au moins six fois par an. En 2012, il s'est réuni à dix reprises (dont sept réunions qui se sont déroulées en partie par télé-/visioconférence et une réunion qui a duré deux jours). Une réunion a été entièrement consacrée à la discussion des thèmes stratégiques. Cinq réunions ont duré quatre heures ou plus (séance achevée dans la journée), quatre ont duré environ trois heures en moyenne et une réunion a duré environ une demi-heure. Par ailleurs, le Conseil d'administration a approuvé une circulaire.

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En 2012, le taux de participation moyen aux réunions était de 87%. Les membres du Conseil d'administration ont consacré du temps supplémentaire à la participation aux réunions des comités du Conseil et à la préparation aux réunions pour l'accomplissement de leurs obligations.

Le Conseil d'administration est la plus haute autorité compétente pour la gestion de Zurich Insurance Group SA et, dans les limites prévues par la loi, du Groupe. Il est aussi la plus haute instance de supervision de la Direction générale. Il lui incombe plus particulièrement d'agir dans les domaines suivants

- **Stratégie du Groupe:** le Conseil d'administration se réunit régulièrement, notamment pour examiner le portefeuille d'activités du Groupe, qui inclut entre autres sa stratégie concernant ses marchés cibles, ses acquisitions, ses clients et ses intermédiaires et sa stratégie en matière de ressources humaines;

- **Finance:** cette mission du Conseil d'administration consiste essentiellement à approuver chaque année le plan financier et d'exploitation, à établir des directives pour l'allocation du capital et la planification financière. De plus, le Conseil d'administration examine et approuve les états financiers consolidés annuels et intermédiaires de Zurich Insurance Groupe SA et du Groupe. Au-delà de certains seuils, le Conseil d'administration approuve des transactions de prêt et d'emprunt importantes;

- **Structure et organisation du Groupe:** le Conseil d'administration détermine et examine régulièrement les principes fondamentaux de la structure du Groupe, de même que les grands changements dans l'organisation de la direction du Groupe, entre autres dans les fonctions de direction. À cet égard, le Conseil d'administration se concerte en particulier sur le cadre d'exercice de la gouvernance d'entreprise du Groupe et son système de rémunération. Par ailleurs, le Conseil d'administration adopte et examine régulièrement les principes fondamentaux en matière de gouvernance, de conformité et de gestion des risques pour le Groupe. En outre, dans le cadre de l'obligation qui lui est faite de convoquer l'Assemblée générale des actionnaires et de soumettre des propositions à ladite assemblée, il analyse la politique concernant les dividendes et formule une proposition pour leur versement. Dans le cadre de ses attributions, le Conseil d'administration décide également des augmentations de capital, de l'homologation des augmentations de capital et est chargé de modifier les statuts en conséquence;

- **Développement des affaires:** Au-delà de certains seuils, le Conseil d'administration examine et approuve régulièrement les acquisitions et les cessions d'activités et d'actifs, les investissements, les affaires nouvelles, les fusions, les joint-ventures, partenariats et les restructurations d'unités opérationnelles ou de comptes d'entreprises.

Le Conseil d'administration, qui s'est régulièrement concerté sur les questions mentionnées plus haut, a aussi concentré son attention sur les domaines suivants en 2012:

- gestion des risques et gestion des investissements au regard de la crise dans la zone euro;

- conséquences de la faiblesse des taux d'intérêt, entre autres sur la gamme de produits du segment assurance-vie et la gestion des investissements;

- évolution des réglementations en matière de liquidité, de fonds propres et de gestion de la solvabilité;

- évolution de la gouvernance d'entreprise et des aspects de la rémunération, ainsi que leur impact potentiel sur Zurich et les mesures préparatoires correspondantes.

Le Conseil d'administration peut nommer parmi ses membres des comités chargés de domaines spécifiques et établir des attributions et des règlements concernant les tâches et responsabilités déléguées et les rapports au Conseil d'administration. Les comités assistent le Conseil d'administration dans l'accomplissement de ses obligations. Ils analysent des thèmes et les proposent au Conseil d'administration pour que des mesures appropriées soient prises et des résolutions adoptées, à moins qu'ils ne soient autorisés à prendre eux-mêmes des décisions dans des domaines particuliers. En 2012, les réunions des comités ont duré entre une et trois heures en moyenne.

Le Conseil d'administration dispose des comités permanents ci-dessous, lesquels rendent régulièrement compte au Conseil et soumettent des résolutions à son approbation.

### Comité de gouvernance et des nominations

**Composition et membres:** le comité de gouvernance et des nominations est composé d’au moins quatre membres du Conseil d’administration. À l’heure actuelle, Messieurs Josef Ackermann (président), Armin Meyer, Tom de Swaan et Victor L.L. Chu forment ce comité.

**Principales missions et responsabilités:** de manière générale, le comité de gouvernance et des nominations

- supervise la gouvernance du Groupe et la compare aux meilleures pratiques reconnues afin de garantir la protection complète des droits des actionnaires;
- élabore des directives de gouvernance d’entreprise qu’il propose au Conseil d’administration et examine de temps en temps;
- s’assure de la conformité avec les exigences de déclaration des informations dans le cadre de la gouvernance d’entreprise et avec les exigences légales et réglementaires;
- est chargé de planifier la relève des membres du Conseil d’administration, du CEO et des membres du GEC. À cet égard, il propose les critères de nomination et de qualification des membres du Conseil et soumet des propositions au Conseil d’administration pour la composition de ce dernier et pour la nomination du président, du vice-président, du CEO et des membres du GEC. Les décisions finales relatives aux nominations et désignations sont prises par le Conseil d’administration, sous réserve de l’approbation des actionnaires dans la mesure où une telle procédure est prévue; et
- examine le système de perfectionnement des cadres et supervise les progrès réalisés dans la planification de la relève.

**Activités en 2012:** le Comité de gouvernance et des nominations s’est réuni cinq fois en 2012. Le taux de participation moyen aux réunions a été de 90% et les affaires suivantes ont été débattues

- questions liées à la gouvernance d’entreprise et leur impact potentiel sur Zurich;
- planification de la relève du Conseil d’administration, conduisant à la recommandation de proposer à l’élection Monica Mächler à l’Assemblée générale ordinaire du 4 avril 2013;
- planification de la relève des cadres supérieurs, avec passage en revue de l’équipe dirigeante et gestion des talents et de la diversité; et
- modifications apportées au Rapport sur la gouvernance d’entreprise.

### Comité des rémunérations

**Composition et membres:** les règlements organisationnels de Zurich Insurance Group SA stipulent que le comité des rémunérations doit être composé d’au moins quatre membres du Conseil d’administration sans pouvoir exécutif. À l’heure actuelle, Thomas Escher (président), Josef Ackermann, Rafael del Pino et Alison Carnwath forment ce comité.

**Principales missions et responsabilités:** de manière générale, le comité des rémunérations

- évalue régulièrement le système et les règles de rémunération du Groupe et propose, le cas échéant, des amendements au Conseil d’administration, qui est responsable de la conception, de la réalisation et de la surveillance de la structure des rémunérations au sein du Groupe.

  Les règles de rémunération et la gouvernance des rémunérations du Groupe sont détaillées dans le Rapport sur les rémunérations aux pages 56 à 81;
- soumet la rémunération des administrateurs à l’approbation du Conseil d’administration;
- négocie, conformément aux règles de rémunération, les conditions de travail du CEO et examine celles des autres membres du GEC – telles que négociées par le CEO – avant de les soumettre à l’approbation du Conseil d’administration;
- coopère avec le CEO sur d’autres questions importantes relevant de l’emploi, des salaires et des avantages sociaux;

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- examine la performance des programmes d'incitations à court et à long terme conçus pour les hauts dirigeants. En outre, afin de favoriser l'adéquation entre les rémunérations et la capacité de prise de risque du Groupe, Group Risk Management consulte les autres fonctions de gouvernance, de contrôle et d'assurance en vue d'un examen des facteurs de risque à prendre en compte lors de l'évaluation de la performance globale qui sert au calcul des primes annuelles. Le Chief Risk Officer se tient à la disposition du comité des rémunérations et du Conseil d'administration pour discuter de ces résultats.

**Activités en 2012:** le comité des rémunérations s'est réuni à sept reprises en 2012. Le taux de participation a été de 100% et les points suivants ont été débattus:

- la performance du Groupe, des segments, du GEC et l'approbation des avantages accordés dans le cadre du STIP et du LTIP en 2011, y compris l'approbation de l'enveloppe totale de rémunération variable pour 2011;
- l'environnement réglementaire, dont les répercussions de la circulaire 2010/1 de la FINMA «Systèmes de rémunération» et certains aspects de la rémunération évoqués par Ethos et ISS;
- questions liées à la rémunération et de leur impact potentiel sur Zurich;
- sujets liés aux conseillers mandatés tels qu'Ethos ou ISS;
- les niveaux de participation au capital-actions des membres du Conseil d'administration et du GEC (pour obtenir des détails complémentaires, veuillez consulter le Rapport sur les rémunérations aux pages 71 et 77);
- lors de la réunion conjointe avec le comité des risques, les aspects de la structure de rémunération du Groupe qui relèvent de la gestion des risques;
- lors de son examen annuel, le rapport sur les rémunérations, les règles de rémunération, les règles du comité des rémunérations, et leur approbation; et
- lors de son examen annuel, la rémunération du Conseil d'administration et du GEC.

Le comité des rémunérations a choisi ses propres conseillers indépendants, Meridian Compensation Partners, LLC et Aon Hewitt, qui l'assistent dans l'examen des structures et des pratiques de rémunération.

## Comité d'audit

**Composition et membres:** les règlements organisationnels de Zurich Insurance Group SA stipulent que le comité d'audit doit être composé d'au moins quatre membres du Conseil d'administration sans pouvoir exécutif et indépendants de la Direction générale. À l'heure actuelle, Don Nicolaisen (président), Fred Kindle, Rolf Watter et Susan Bies – qui répondent tous aux critères d'indépendance et de qualification – forment ce comité.

La charte du comité d'audit stipule que celui-ci, pris dans son ensemble, doit avoir (i) des connaissances des normes IFRS et des états financiers, (ii) la faculté d'évaluer l'application générale de ces normes en rapport avec la comptabilisation des estimations, des charges et des provisions techniques, (iii) l'expérience de la préparation, de l'audit, de l'analyse ou de l'évaluation d'états financiers dont l'ampleur et le niveau de complexité des questions comptables sont généralement comparables à ceux de Zurich Insurance Group SA et du Groupe, ou l'expérience de la supervision active d'une ou de plusieurs personnes exerçant ces activités, (iv) une compréhension suffisante des contrôles et procédures internes concernant l'établissement de rapports financiers et (v) une compréhension des fonctions du comité d'audit.

Pour faciliter un échange d'informations permanent entre le comité des risques et le comité d'audit, le président du comité d'audit est membre du comité des risques et un membre du comité des risques est membre du comité d'audit. Le président du Conseil d'administration est régulièrement invité à participer aux réunions du comité des risques et du comité d'audit.

Les auditeurs externes, les auditeurs internes, les membres compétents du GEC et autres dirigeants assistent à ses réunions afin, entre autres choses, de débattre des rapports d'audit, d'examiner et d'évaluer le concept d'audit et le processus d'examen et d'évaluer les activités des auditeurs internes et externes. Des entretiens privés avec les auditeurs externes et internes sont programmés à l'occasion d'une majorité de réunions du comité d'audit pour permettre des discussions en l'absence des représentants de la Direction générale.

Pour de plus amples informations sur la supervision et le contrôle du processus d’audit externe, veuillez consulter les pages 52 et 53.

**Principales missions et responsabilités:** de manière générale, le comité d’audit

- fait office d’instance centrale pour la communication et la surveillance propres à la comptabilité financière et aux rapports financiers, au contrôle interne, à l’actuariat et à la compliance;
- examine le processus d’audit du Groupe (y compris l’établissement des principes fondamentaux de l’audit de Zurich Insurance Group SA et du Groupe, de même que la soumission de propositions en la matière);
- examine au moins une fois par an les normes de contrôle interne, y compris les activités, les plans, l’organisation et la qualité de l’audit interne et de la compliance du Groupe.

  Pour connaître les déclarations concernant le contrôle interne et les procédures de contrôle interne appliquées conformément à l’Internal Control: Revised Guidance to Directors on the UK Corporate Governance Code (connues autrefois sous l’appellation «Turnbull Guidance» au Royaume-Uni depuis octobre 2005), veuillez consulter les pages 54 et 55; et
- examine les résultats financiers annuels, semestriels et trimestriels du Groupe avant de les soumettre au Conseil d’administration.

**Activités en 2012:** le comité d’audit s’est réuni à sept reprises en 2012. Le taux de participation a été de 100% et les points suivants ont été débattus:

- modifications des conventions comptables (par exemple, la norme IFRS 10 qui sera adoptée en 2013);
- conventions et questions relatives au provisionnement;
- efficacité du cadre de contrôle interne;
- plans de travail et conclusions de Group Audit, mise en œuvre de mesures correctives par la Direction générale;
- travail des auditeurs externes, conditions de leur engagement et conclusions des auditeurs externes sur des avis et estimations clés dans les états financiers; et
- plan de compliance annuel du Groupe, qu’il a approuvé et dont il s’est servi pour évaluer les progrès réalisés au cours de l’année. Le comité d’audit a aussi examiné des questions et tendances de la compliance, dont l’évolution des exigences réglementaires vis-à-vis de la fonction compliance.

### Comité des risques

**Composition et membres:** les règlements organisationnels de Zurich Insurance Group SA stipulent que le comité des risques doit être composé d’au moins quatre membres du Conseil d’administration sans pouvoir exécutif et indépendants de la Direction générale. À l’heure actuelle, Tom de Swaan (président), Don Nicolaisen, Armin Meyer et Susan Bies forment ce comité.

Pour faciliter un échange d’informations permanent entre le comité des risques et le comité d’audit, le président du comité d’audit est membre du comité des risques et un membre du comité des risques est membre du comité d’audit. Le président du Conseil d’administration est régulièrement invité à participer aux réunions du comité des risques et du comité d’audit.

**Principales missions et responsabilités:** de manière générale, le comité des risques

- supervise la gestion des risques au sein du Groupe, en particulier la tolérance au risque du Groupe, y compris les limites convenues que le Conseil d’administration considère comme acceptables pour Zurich, le cumul des limites convenues à travers le Groupe, la mesure de l’adhésion aux capacités de risques convenues et la capacité du Groupe à assumer des risques en rapport avec les niveaux de capital anticipés;

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- supervise également le cadre de gouvernance des risques dans tout le Groupe, y compris la gestion et le contrôle des risques, les politiques de risque et leur mise en œuvre, la stratégie des risques et la surveillance des risques opérationnels;
- examine les méthodologies de mesure des risques et le respect par le Groupe de ses limites de risques; examine aussi la performance de la fonction de gestion des risques;
- examine, avec les responsables des centres d'activité et la fonction de gestion des risques du Groupe, les règlements et procédures généraux du Groupe et s'assure que des systèmes efficaces de gestion des risques sont en place; et
- reçoit régulièrement des rapports de la fonction de gestion des risques du Groupe et évalue si d'importants enjeux se rapportant à la gestion et au contrôle des risques sont traités de manière adéquate et en temps voulu par la direction.

**Activités en 2012:** le comité des risques s'est réuni à sept reprises en 2012. Le taux de participation moyen a été de 96%. Du point de vue de la gestion des risques dans l'entreprise, le comité a notamment abordé les sujets suivants:

- les résultats de l'évaluation du profil de risque du Groupe ainsi que l'évolution et l'évaluation du capital économique et réglementaire du Groupe;
- les résultats de l'évaluation du profil de risque global du Groupe, dont une mise à jour concernant la propriété des risques et les mesures de réduction des risques;
- les résultats et l'évolution du capital économique et du capital exigé en vertu de la loi;
- l'examen annuel de la politique de risque de Zurich (Zurich Risk Policy, ZRP), dont l'approbation de chapitres ajoutés et modifiés;
- les questions actuelles relevant du risque, dont les discussions sur les institutions financières d'importance systémique;
- les risques de crédit et contrôle de ces risques, dont un rapport sur les produits dérivés;
- les risques opérationnels et contrôle de ces risques, dont une mise à jour au sujet de l'initiative pour la sécurité des données et le cadre de gestion des risques inhérents au sourcing et/ou à la sous-traitance de tâches à l'étranger; et
- lors de la réunion conjointe avec le Comité des rémunérations, les aspects de la structure de rémunération du Groupe qui relèvent de la gestion des risques.

Par ailleurs, pour ce qui est des risques propres aux segments et aux régions, le comité des risques a concentré son travail sur les aspects suivants:

- les risques propres à General Insurance et contrôles de ces risques, en particulier la réassurance et le programme de gestion des catastrophes, et la gestion de l'accumulation des risques;
- les risques propres à Global Life et contrôles de ces risques, dont les approbations de produits/nouveaux produits et limites;
- les risques inhérents à la gestion des placements et à la gestion actif-passif et contrôles de ces risques; et
- à l'occasion de séances d'examen détaillé, les risques et contrôles des risques propres à des régions et activités données, par exemple la planification des mesures d'urgence en zone euro, et Zurich North America et Latin America en général.

Pour de plus amples informations sur la gouvernance des risques, veuillez consulter la Risk review aux pages 111 à 161.

### Domaines de responsabilité du Conseil d'administration et de la Direction

Le Conseil détermine la stratégie globale du Groupe, supervise les cadres superieurs et examine les questions clés relevant de la stratégie, des finances, de la structure, de l'organisation et du développement des activités. Le Conseil d'administration approuve notamment le plan stratégique du Groupe ainsi que les plans financiers annuels établis par la Direction générale. Il examine et approuve les états financiers annuels, semestriels et trimestriels de Zurich Insurance Group SA et du Groupe. Pour en savoir plus sur les responsabilités du Conseil d'administration, veuillez consulter les pages 33 et 34.

À l'exception des pouvoirs qui lui sont réservés, comme mentionné ci-dessus, le Conseil d'administration a délégué la direction du Groupe au CEO. Le CEO et, sous sa direction, le GEC sont responsables du développement et de l'exécution des plans stratégiques et financiers approuvés par le Conseil d'administration. Le CEO a des pouvoirs et des devoirs spécifiques pour ce qui est des questions stratégiques, financières et autres, ainsi qu'en ce qui concerne la structure et l'organisation du Groupe. De plus, il dirige, supervise et coordonne les activités des membres du GEC. Le CEO veille à ce que des outils de gestion appropriés pour le Groupe soient développés et mis en œuvre et il représente les intérêts généraux du Groupe. Le CEO a le pouvoir d'approuver certaines acquisitions et cessions d'activités et d'actifs, des investissements et l'engagement dans de nouvelles activités, fusions, joint-ventures et partenariats avec d'autres organisations.

### Instruments d'information et de contrôle vis-à-vis du Comité exécutif du Groupe

Le Conseil d'administration supervise la Direction générale et surveille sa performance par des processus d'établissement de rapports et de contrôle. Les rapports réguliers du CEO et d'autres membres de la Direction générale au Conseil d'administration fournissent des informations appropriées et actualisées, y compris des données clés sur les activités principales, des informations financières, des informations sur les risques existants et potentiels, des mises à jour sur les évolutions dans les principaux marchés et vis-à-vis des principaux concurrents et d'autres événements importants. Le président du Conseil d'administration rencontre régulièrement le CEO. Il rencontre aussi ponctuellement tous les autres membres du GEC et cadres supérieurs en dehors des réunions ordinaires du Conseil d'administration. Il en va de même pour les autres membres du Conseil d'administration, qui rencontrent notamment le Chief Financial Officer et le Chief Risk Officer.

Le Groupe a mis en place un système d'information et de présentation de l'information financière. Le plan annuel pour le Groupe, qui inclut un résumé des paramètres financiers et opérationnels, est examiné en détail par le GEC et approuvé par le Conseil d'administration. Des mises à jour mensuelles permettent de comparer la performance réelle avec le plan. Les prévisions pour l'année sont révisées, si nécessaire, afin de refléter les changements au niveau des influences et des risques pouvant affecter les résultats du Groupe. Le cas échéant, des actions sont engagées en cas d'écart. Ces informations sont examinées chaque mois par le GEC et chaque trimestre par le Conseil d'administration.

Le Groupe a adopté et applique une méthode de gestion et de contrôle des risques coordonnée, formalisée et cohérente. Des informations sur les processus de gestion des risques du Groupe sont présentées dans la section Risk review à la page 111. La rubrique gestion des risques et déclaration de contrôle interne aux pages 54 et 55 décrit l'approche du Groupe au regard de la gestion des risques et des contrôles internes, conformément aux directives sur le contrôle interne «Internal Control: Revised Guidance to Directors on the UK Corporate Governance Code (connues autrefois sous l'appellation «Turnbull Guidance») depuis octobre 2005 au Royaume-Uni.

La fonction d'audit interne, les auditeurs externes et la fonction de compliance assistent également le Conseil d'administration dans l'exercice de ses devoirs de contrôle et de supervision. Des informations relatives aux principaux domaines d'activité de ces fonctions figurent aux pages 51 à 54.

# Comité exécutif du Groupe (GEC)

Notre Comité exécutif s'efforce de nous aider à réaliser notre ambition: devenir le meilleur assureur mondial aux yeux de nos actionnaires, de nos clients et de nos collaborateurs.


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,
président de la région 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,
président de la région Europe

8 Cecilia Reyes
Chief Investment Officer

9 Geoff Riddell
Président régional de Asia-Pacific
& Middle East

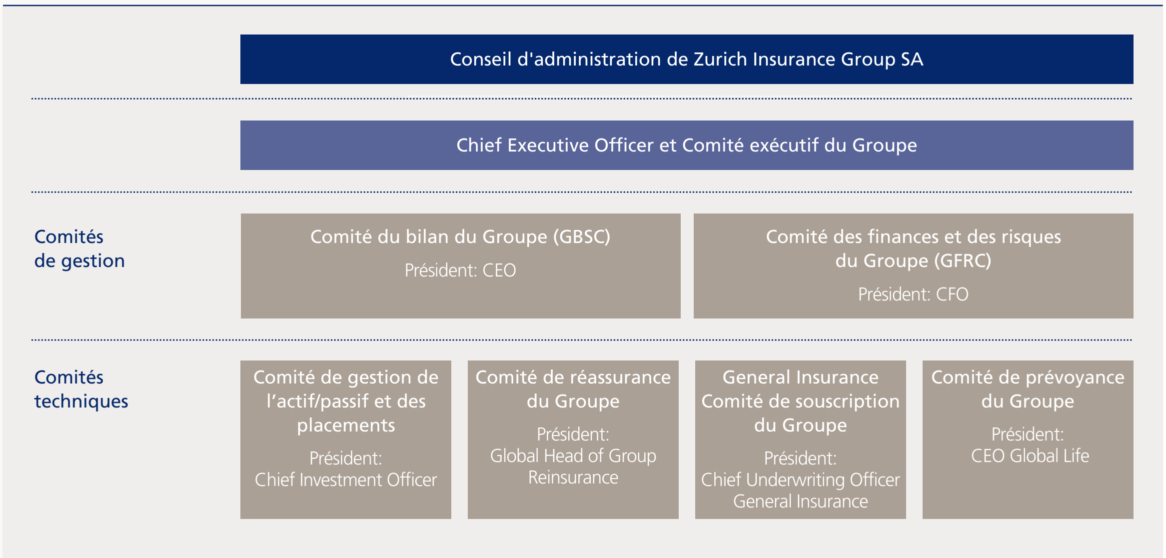
10 Kristof Terryn
Group Head of Operations

11 Pierre Wauthier
Chief Financial Officer

[1] Assumait la fonction de Chief Executive Officer de Farmers Group, Inc. le 1er janvier 2012 et a été nommé le même jour au Comité exécutif du Groupe
[2] Nommé au Comité exécutif du Groupe le 1er juillet 2012
[3] Assumait la fonction de Chief Executive Officer de General Insurance le 1er septembre 2012 et a été nommé le même jour au Comité exécutif du Groupe

## Direction du Groupe
### Comité exécutif du Groupe (GEC)

Direction du Groupe
au 31 décembre 2012




Dans la mesure où ces tâches ne sont pas réservées au Conseil d'administration, la gestion des affaires est déléguée au CEO. Le CEO et, sous sa supervision, le GEC sont responsables des questions relevant de la politique stratégique, financière et commerciale à l'échelon du Groupe, y compris la performance consolidée, l'allocation du capital ainsi que les fusions et acquisitions.

Le GEC est présidé par le CEO. Au 31 décembre 2012, le GEC était composé du Chief Financial Officer, du Chief Investment Officer, du Chief Risk Officer, du Group Head of Operations et du Group General Counsel. Afin de refléter les branches d'activités et la géographie, les CEO des segments d'activité General Insurance, Global Life et Farmers ainsi que le CEO de North America Commercial sont également membres du GEC. Les membres du GEC font également office de présidents des régions Europe, North America et Asia-Pacific & Middle East.

Le Groupe a encore simplifié sa structure organisationnelle au siège social. Cette démarche l'a conduit à supprimer la fonction de Chief Administrative Officer. Certains domaines de responsabilité de ce poste ont été intégrés à d'autres fonctions. De plus, le Group General Counsel a été nommé au GEC pour y superviser Legal, Compliance, Government and Industry Affairs dans tout le Groupe, le Board Secretariat de Zurich Insurance Group SA, Zurich Compagnie d'Assurances SA et Zurich Compagnie d'Assurances sur la Vie SA.

Des comités spécifiques interfonctionnels ont été mis en place pour certains domaines clés afin de faciliter la coordination et le rapprochement des recommandations soumises à l'approbation du CEO sur des thèmes spécifiques.

### Comités de la Direction générale
#### Le Comité du bilan du Groupe (GBSC)

**Membres:** Chief Executive Officer (président), Chief Financial Officer (vice-président), Chief Investment Officer, Chief Risk Officer, Chief Executive Officer General Insurance, Chief Executive Officer Global Life.

**Principales missions et responsabilités:**

- organe interfonctionnel chargé principalement de contrôler les activités qui ont des répercussions notables sur les bilans du Groupe et de ses filiales; et

# Rapport sur la gouvernance d'entreprise *suite*

- chargé d'établir les plans annuels relatifs au capital et au bilan du Groupe en fonction des plans stratégique et financier de celui-ci et de recommander des transactions spécifiques ou des changements commerciaux non planifiés susceptibles d'avoir un impact important sur le bilan du Groupe;

- supervise tous les aspects principaux qui ont des répercussions sur le bilan, dont la gestion du capital, la réassurance, la gestion de l'actif-passif, la politique sur les dividendes et le rachat d'actions, la liquidité, l'effet de levier, les agences de notation et d'autres aspects et questions liés au bilan évalués entre autres par le modèle de capital économique interne de Zurich.

**Les membres du comité des finances et des risques du Groupe (GFRC):** Chief Financial Officer (président), Chief Risk Officer (vice-président), Chief Investment Officer, Group General Counsel, Head of Mergers & Acquisitions. En février 2013 le Head of Operations du groupe a été nommé au GFRC tandis que le Head of Mergers & Acquisitions a cessé d'en être membre.

**Principales missions et responsabilités:**

- organe interfonctionnel chargé des questions financières et de gestion des risques dans le cadre de la stratégie et de l'activité commerciale globale du Groupe;

- supervise les implications financières des décisions commerciales et assure une gestion efficace du profil de risques global du Groupe, y compris les risques liés à l'assurance, aux marchés financiers et à la gestion de l'actif-passif, les risques de crédit et opérationnels ainsi que les interactions parmi ces risques; et

- vérifie et formule des mesures à prendre en lien avec de potentielles opérations de fusion et acquisition et des affaires qui relèvent de la gestion des finances et des risques.

### Comités techniques

En complément des comités de la Direction générale, la structure de gouvernance du Groupe met à disposition des comités aux fonctions plus techniques qui facilitent l'exécution des activités commerciales de Zurich de plusieurs manières.

**Le comité de gestion de l'actif-passif et des placements,** présidé par le Chief Investment Officer, est un organe interdivisionnel qui a pour mission première de surveiller et d'examiner la gestion de l'actif-passif du Groupe et l'allocation stratégique des actifs détenus par Zurich.

**Le comité de réassurance du Groupe,** présidé par le Global Head of Group Reinsurance, dirige le processus administratif de réassurance du Groupe. Il est aussi chargé de définir et mettre en œuvre la stratégie de réassurance du Groupe en accord avec la gestion des risques du Groupe. Il dirige aussi les activités de réassurance dans les segments et garantit que ceux-ci ont accès aux capacités de réassurance requises aux conditions du marché.

**Le comité de souscription de General Insurance,** présidé par le Chief Underwriting Officer General Insurance, est l'instance centrale pour la fonction de souscription au sein de General Insurance. Il a pour fonctions principales d'approuver la politique de souscription et de contrôle connexe, de concevoir et d'entériner la stratégie de souscription du Groupe, de surveiller le contrôle de l'accumulation des risques et d'approuver les plans de réduction des risques. Le comité est aussi chargé d'approuver les nouvelles transactions (ou reconductions) captives et les nouveaux produits. Pour terminer, il supervise et surveille les examens des souscriptions techniques.

**Le comité de prévoyance du Groupe,** présidé par le Chief Executive Officer Global Life, a pour mission de concevoir et mettre en place un cadre de gouvernance, dont les politiques et processus adéquats pour les questions ayant trait à la prévoyance. Il assume un rôle de supervision et de conseil pour tous les plans de prévoyance et les programmes d'avantages sociaux budgétisés. Il intervient à différents niveaux: comptabilité, modalités d'octroi des avantages sociaux, financement et investissement. Il remet au comité du bilan du Groupe des recommandations sur des questions de prévoyance.

### Panels

Afin de renforcer sa compréhension et son évaluation des enjeux et des risques auxquels Zurich peut être confrontée, le Groupe recourt à des compétences et des avis externes. À la fin 2012, trois panels d'experts universitaires, commerciaux et industriels de premier plan lui fournissaient une analyse externe et une expertise spécifique. Ceux-ci ne sont pas des organes du Groupe et n'ont pas de pouvoir décisionnel. Ils apportent la compétence et les conseils nécessaires aux cadres supérieurs ou à certaines fonctions du Groupe. L'International Advisory Council, en particulier, a pour tâche de fournir une perspective et des compétences externes au CEO et aux membres du GEC sur les stratégies de croissance et de politique publique du Groupe. L'Investment Management Advisory Council fournit une analyse externe sur les résultats et la stratégie de placement de Zurich et sur l'atteinte de rendements supérieurs adaptés à la gestion des actifs-passifs des placements du Groupe. Le Natural Catastrophe Advisory Council fournit une expertise spécifique sur les tendances de survenance, la prévisibilité et les effets destructeurs des catastrophes naturelles ainsi qu'une analyse externe sur l'approche de Zurich face à de telles catastrophes afin d'améliorer l'efficacité de ses souscriptions et de ses achats de réassurance.



Membres du GEC au 31 décembre 2012

| Nom | Nationalité | Né(e) en | Fonction |
|---|---|---|---|
| Martin Senn | Suisse | 1957 | Chief Executive Officer |
| Jeff Dailey | Américain | 1957 | Chief Executive Officer Farmers Group, Inc. |
| Mike Foley | Américain | 1962 | Chief Executive Officer North America Commercial, président de la région North America |
| Yannick Hausmann | Suisse | 1967 | Group General Counsel |
| Kevin Hogan | Américain | 1962 | Chief Executive Officer Global Life |
| Michael Kerner | Américain | 1965 | Chief Executive Officer General Insurance |
| Axel Lehmann | Suisse | 1959 | Chief Risk Officer & président de la région Europe |
| Cecila Reyes | Suisse/Philippine | 1959 | Chief Investment Officer |
| Geoff Riddell | Britannique | 1956 | Président de la région Asia Pacific & Middle East |
| Kristof Terryn | Belge | 1967 | Group Head of Operations |
| Pierre Wauthier | Français/Britannique | 1960 | Chief Financial Officer |

Tous les membres actuels du GEC ont siégé au sein de l'instance tout au long de l'année 2012, à l'exception de Yannick Hausmann et Michael Kerner. Yannick Hausmann a été nommé membre du GEC le 1er juillet 2012. Michael Kerner a été nommé Chief Executive Officer General Insurance et membre du GEC le 1er septembre 2012. Il a succédé à Mario Greco, qui a quitté le GEC et son poste de Chief Executive Officer General Insurance le 4 juin 2012. Christian Orator a quitté le GEC et sa fonction de Chief Administrative Officer le 30 juin 2012.

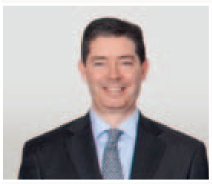
Pour plus d'informations sur les indemnités de résiliation contractuelles, veuillez consulter la page 50.

# Rapport sur la gouvernance d'entreprise *suite*

## Biographies

**Martin Senn** (1957), citoyen suisse
Chief Executive Officer
**Parcours professionnel:** Martin Senn a suivi une formation de banquier et a travaillé à l'ancienne Société de Banque Suisse de 1976 à 1994. Il y a exercé entre autres les fonctions de trésorier à Hong Kong et de trésorier régional pour l'Asie et la région Pacifique à Singapour, avant de gérer le bureau de la société à Tokyo. En 1994, il rejoint Credit Suisse, où il occupe diverses fonctions exécutives. Il est entre autres trésorier du siège social et de la division Europe, et président du Credit Suisse Group au Japon, chargé de restructurer et repositionner toutes les entités juridiques du Groupe au Japon. En 2001, il devient membre du Comité exécutif de Credit Suisse et est nommé responsable de la division Trading & Investment Services. De 2003 à 2006, il est membre du Comité exécutif et Chief Investment Officer du Groupe Swiss Life. Il devient Chief Investment Officer de Zurich Insurance Group en 2006. À ce titre, il siège au Comité exécutif du Groupe. Il prend ensuite les fonctions de Chief Executive Officer le 1er janvier 2010.
**Mandats externes:** M. Senn occupe des postes à hautes responsabilités dans de nombreuses organisations commerciales et industrielles, notamment chez Avenir Suisse, la Zurich Association of Economics, la Swiss-American Chamber of Commerce, la Geneva Association et l'Institut de la Finance Internationale (IIF). Par ailleurs, il est représentant de la Table ronde des CEO de l'assurance dommages, membre du Forum de l'assurance paneuropéen (PEIF), de la Table ronde européenne des services financiers (EFR), du conseil consultatif de la Tsinghua School of Economics and Management et du comité consultatif international de l'Atlantic Council. M. Senn est aussi membre du Conseil de fondation du Festival de Lucerne et consul honoraire de la République de Corée à Zurich.
**Formation:** Martin Senn est titulaire d'un diplôme commercial et bancaire délivré par l'École commerciale de Bâle, en Suisse. Il a également suivi l'International Executive Program de l'INSEAD à Fontainebleau ainsi que l'Advanced Management Program de la Harvard Business School.

**Jeff Dailey** (1957), citoyen américain
CEO de Farmers Group, Inc.
**Parcours professionnel:** Jeff Dailey a une longue expérience dans le secteur des assurances. En 1980, il débute sa carrière chez Mutual Service Insurance Company et travaille ensuite chez Progressive Insurance Company. Il fonde plus tard la Reliant Insurance Company, une start-up en assurances automobiles détenue par Reliance Group Holdings, qui sera vendue à Bristol West Holdings Inc. en 2001. Entre 2001 et 2004, M. Dailey est COO de Bristol West, avant d'en être nommé président en 2004, après l'introduction réussie de l'entreprise à la Bourse de New York. En 2006, il devient CEO de Bristol West. M. Dailey intègre Farmers en 2007 en tant que président de l'assurance des particuliers au moment où Farmers acquiert Bristol West. En janvier 2011, il est promu président et Chief Operating Officer (COO) de Farmers Group, Inc. Il entre au Conseil d'administration de Farmers Group, Inc. en février 2011. M. Dailey est nommé CEO de Farmers Group, Inc. et rejoint le GEC en janvier 2012.
**Mandats externes:** Aucun
**Formation:** M. Dailey est diplômé en économie de l'Université du Wisconsin à Madison et titulaire d'un MBA de l'Université du Wisconsin à Milwaukee.



**Mike Foley** (1962), citoyen américain
CEO North America Commercial et président de la région North Amercia
**Parcours professionnel:** Mike Foley suit le programme de formation en gestion financière de l'Armtek Corporation à New Haven, au Connecticut, en 1984. Après l'obtention de son diplôme à la Kellogg School of Management en 1989, M. Foley devient associé du Deerpath Group à Lake Forest, dans l'Illinois. Il est ensuite élu vice-président de la société et devient responsable d'un portefeuille de placements en actions dans divers entreprises acquises. En 1993, il accède à la fonction de président d'Electrocal, Inc, dans le Connecticut. En 1996, M. Foley rejoint McKinsey & Company à Chicago, dans l'Illinois, en tant que directeur et dirige ensuite les activités d'assurance dommages en Amérique du Nord. Il rejoint Zurich en 2006 en tant que Chief Operating Officer de la division d'affaires North America Commercial et, en janvier 2008, est nommé CEO de cette division et membre du GEC. M. Foley et aussi président de la région North America et président du Conseil de Zurich Holding Company of America, Inc (ZHCA).
**Mandats externes:** M. Foley est président du Conseil d'administration de l'American Insurance Association depuis 2012.
**Formation:** M. Foley est titulaire d'un Bachelor of Science de la Fairfield University, à Fairfield, Connecticut (1984), et d'un master obtenu à la JL Kellogg Graduate School of Management de la Northwestern University d'Evanston, dans l'Illinois (1989).

**Yannick Hausmann** (1967), citoyen suisse
Group General Counsel
**Parcours professionnel:** Yannick Hausmann débute sa carrière professionnelle en 1995 dans un cabinet d'avocats à Bâle. De 1998 à 2000, il est associé au département des affaires fiscales et juridiques d'Arthur Andersen AG et d'Andersen Legal à Zurich. Il a été membre du service Affaires juridiques et compliance de l'Association suisse d'assurances pendant plusieurs années. M. Hausmann rejoint l'équipe Zurich Corporate Center Litigation and Investigation en 2000. Il occupe son poste actuel depuis décembre 2009. En juillet 2012, il a été élu membre du GEC. Il supervise les fonctions Legal, Compliance et GAIA (Government and Industry Affairs) à l'international pour le Groupe Zurich et le Board Secretariat.
**Mandats externes:** M. Hausmann siège au sein des comités juridiques de la Swiss-American Chamber of Commerce et d'economiesuisse depuis 2009. En 2011, il entre dans le Conseil de fondation du Musée Haus Konstruktiv à Zurich.
**Formation:** M. Hausmann a obtenu son doctorat en droit à l'Université de Bâle en 1995 et le brevet d'avocat du canton de Bâle en 1997. Il est titulaire d'un Master of Laws (LL.M.) de la New York University School of Law (2003). Il a par ailleurs suivi l'Advanced Management Program de la Harvard Business School en 2012.

**Kevin Hogan** (1962), citoyen américain
CEO Global Life
**Parcours professionnel:** Kevin Hogan débute sa carrière professionnelle en 1984 au sein du Groupe AIG, chez American International Underwriters (AIU), à New York. Par la suite, il occupe divers postes de direction à Chicago, Tokyo, Hong Kong et Singapour. En 1998, il est nommé président de la division Accident & Health du Groupe AIG à New York. En 2001, il devient l'un des vice-présidents d'AIG. L'année suivante, il cumule cette fonction avec celle de Chief Operating Officer chez AIU. En 2003, M. Hogan s'installe à Pékin, où il devient cadre dirigeant de la coentreprise créée par AIG et la People's Insurance Company of China. En 2005, il prend la direction de la division assurance-vie d'AIG pour la Chine et Taïwan, où il est responsable d'AIA China et de Nan-Shan. En 2008, il retourne à New York en tant que Chief Distribution Officer d'AIG pour la division Foreign Life and Retirement Services. Il rejoint Zurich en décembre 2008 en tant que CEO de Global Life Americas. Ce poste l'amène à diriger l'activité assurance-vie de Zurich sur le continent américain, avec des responsabilités étendues à Farmers Life, Zurich American Life Insurance Company (anciennement KILICO) et à la division assurance-vie de Zurich en Amérique latine. En juillet 2010, il devient CEO de Global Life et membre du GEC.
**Mandats externes:** M. Hogan est vice-président du Global Agenda Council du Forum économique mondial dédié aux systèmes de sécurité sociale depuis 2012.
**Formation:** M. Hogan est diplômé du Dartmouth College de Hanover, dans le New Hampshire.

**Michael Kerner** (1965), citoyen américain
CEO General Insurance
**Parcours professionnel:** En 1992, M. Kerner quitte la Continental Insurance Company pour Zurich, où il occupe divers postes de cadre dirigeant. Il est entre autres Chief Operations Officer de Zurich North America Specialties et Head of Ceded Reinsurance pour Zurich North America de 2002 à 2005. Il assume la fonction de Global Head of Group Reinsurance de janvier 2006 à juin 2007 et occupe la fonction de Global Chief Underwriting Officer pour General Insurance et Head of Group Strategy à Zurich de 2007 à 2009. Avant d'accéder à son poste actuel, il a occupé la fonction de Chief Executive Officer de Zurich Global Corporate pour North America.
**Mandats externes:** Aucun
**Formation:** M. Kerner est titulaire d'un Bachelor of Science en mathématiques et économie de la State University of New York, à Binghamton. M. Kerner est membre de la Casualty Actuarial Society et de l'American Academy of Actuaries.

# Rapport sur la gouvernance d'entreprise *suite*

**Axel P. Lehmann** (1959), citoyen suisse
Chief Risk Officer et président de la région Europe
**Parcours professionnel:** M. Lehmann a occupé les fonctions de Project Manager et d'associé de recherche à l'Institut de l'économie de l'assurance de l'Université de St-Gall. En 1989, il est nommé professeur en administration des entreprises à l'Université de St-Gall. Un an plus tard, il devient vice-président et responsable du Consulting and Management Development à l'Institut de l'économie de l'assurance et au Centre européen. En 1994, il enseigne à l'Université Bocconi, à Milan, en Italie, au titre de professeur invité, avant de prendre la direction du service Corporate Planning and Corporate Controlling chez Swiss Life à Zurich. M. Lehmann rejoint Zurich en 1996 en tant que membre de la haute direction de Zurich Suisse, puis il prend les fonctions de Head of Corporate Development et Head of Commercial Lines. En novembre 2000, il devient membre du Comité de direction du Groupe et responsable du développement commercial. En septembre 2001, il devient CEO de la région Europe du Nord, Europe centrale et Europe de l'Est, avant d'être nommé CEO du Groupe Zurich en Allemagne. En mars 2002, M. Lehmann rejoint le Comité exécutif du Groupe et devient CEO de la division commerciale Europe continentale. En 2004, il est chargé de l'intégration de la division Royaume-Uni, Irlande et Afrique du Sud au sein de la division Europe continentale. En septembre 2004, il devient CEO de Zurich American Insurance Company et de la division North America Commercial à Schaumburg, dans l'Illinois. En janvier 2008, il endosse sa fonction actuelle de Chief Risk Officer. Parallèlement, il est responsable de Group IT jusqu'à 2010. Il devient président du Conseil d'administration de Farmers Group, Inc. en juillet 2011 et président de la région Europe en octobre 2011.
**Mandats externes:** M. Lehmann siège au Conseil d'administration d'UBS SA. Il est aussi membre et ancien président du CRO Forum. M. Lehmann est professeur honoraire en administration des entreprises et gestion des services et président du Conseil d'administration de l'Institut d'économie de l'assurance (I.VW-HSG) de l'Université de Saint-Gall, en Suisse. Il siège également au Conseil d'administration d'economiesuisse.
**Formation:** M. Lehmann est titulaire d'un doctorat et d'un master en sciences économiques et administration des entreprises de l'Université de St-Gall, en Suisse, où il a aussi obtenu son habilitation. Il a suivi l'Advanced Management Program de la Wharton School.
Sa thèse de doctorat a été récompensée par le prix Peter Werhahn de la meilleure thèse de doctorat en science de gestion et théorie universitaire. Il a réalisé ses travaux de recherche à la Harvard Business School et à l'Arizona State University.

**Cecilia Reyes** (1959), citoyenne suisse et philippine
Chief Investment Officer
**Parcours professionnel:** Cecilia Reyes possède plus de 20 ans d'expérience dans les marchés financiers internationaux. De 1990 à 1995, elle a travaillé pour Credit Suisse à Zurich, dans divers postes au sein des services Credit Suisse Asset Management, Global Treasury et Securities Trading. En 1995, elle rejoint ING Barings à Londres et, en 1997, elle entre au Conseil d'administration et devient Head of Trading Risk Analytics. Elle s'installe ensuite à Amsterdam en 2000, où elle prend les fonctions de Head of Risk Analytics chez ING Asset Management. À ce poste, elle est chargée de développer des méthodes de gestion des risques pour la division gestion de patrimoine. Cecilia Reyes entre chez Zurich en janvier 2001 en tant que responsable régionale de Group Investments pour l'Amérique du Nord. En 2004, elle est nommée responsable régionale pour l'Europe et International Businesses. D'avril 2006 à mars 2010, elle est à la tête du service Investment Strategy Implementation. Elle occupe son poste actuel de Chief Investment Officer depuis avril 2010.
**Mandats externes:** Cecilia Reyes est membre du Conseil consultatif du département de banque et finance de l'Université de Zurich depuis 2011.
**Formation:** Cecilia Reyes est titulaire d'un doctorat en finance de la London Business School et d'un MBA de l'Université de Hawaï, aux États-Unis.

**Geoffrey Riddell** (1956), citoyen britannique
Président de la région Asia-Pacific & Middle East
**Parcours professionnel:** M. Riddell débute sa carrière chez Price Waterhouse en 1978. Quatre ans plus tard, il rejoint AIG, où il assume diverses fonctions, dont celle de directeur national pour Hong Kong, la Belgique et la France. Lors de son séjour à Hong Kong, il crée la première compagnie d'assurances dommages étrangère en Chine. Il rejoint Zurich en 2000, dans un premier temps comme directeur général de Zurich Commercial au Royaume-Uni, puis en tant que directeur général des activités Corporate et Government du Royaume-Uni. En 2002, il est nommé Chief Executive Officer du segment General Insurance au Royaume-Uni, en Irlande et en Afrique du Sud. En avril 2004, il devient CEO de Global Corporate, puis est nommé au Comité exécutif du Groupe en octobre 2004. En 2009, il devient CEO de la région Asia-Pacific & Middle East (APME). Il est alors responsable de l'assurance-vie et de General Insurance dans la région APME. La même année, il est nommé président de Global Corporate. En 2010, il prend le poste nouvellement créé de président de la région Asia-Pacific & Middle East. M. Riddell est un ancien membre du General Insurance Council de l'Association of British Insurers, et a été président de son Liability Committee pendant trois ans. De 1990 à 1995, il est membre du Conseil de la Fédération des assureurs de Hong Kong. Il siège aux conseil d'administration de Pool Re de février 2005 à août 2010 et du Forum for Global Health Protection de 2007 jusqu'à la fin de l'année 2010. Il a été membre du Comité de la Confederation of British Industry's Chairmen et a présidé le Conseil de CBI Financial Services jusqu'en septembre 2010. Jusqu'à fin 2009, il était membre du Conseil de fondation de l'IMD à Lausanne, du comité consultatif sur l'UE de la ville de Londres, ainsi que du comité consultatif du Lord-Mayor de Londres.
**Mandats externes:** M. Riddell siège au Comité général de la Chambre de commerce britannique à Hong Kong depuis le 1er avril 2011.
**Formation:** Geoffrey Riddell est titulaire d'un master (MA) en sciences naturelles (chimie) de l'Université d'Oxford (The Queen's College) et obtient ultérieurement un diplôme d'expert-comptable.

**Kristof Terryn** (1967), citoyen belge
Group Head of Operations
**Parcours professionnel:** M. Terryn débute sa carrière professionnelle en 1993 dans le secteur bancaire, notamment les marchés des capitaux. En 1997, il entre chez McKinsey & Company. Il occupe divers postes dans les services de conseils financiers à Bruxelles, puis à Chicago. Il rejoint Zurich en 2004 en tant que Head of Planning and Performance Management. En 2007, il devient Chief Operating Officer pour la division Global Corporate. En 2009, il est nommé Chief Operating Officer de General Insurance. Depuis 2010, il est responsable des services partagés du Groupe, de l'IT, des achats et sourcing et des initiatives de transformation opérationnelle.
**Mandats externes:** Aucun
**Formation:** M. Terryn est diplômé en droit et en économie de l'Université de Louvain, en Belgique, et titulaire d'un MBA de l'Université du Michigan.

**Pierre Wauthier** (1960), citoyen franco-britannique
Chief Financial Officer
**Parcours professionnel:** Pierre Wauthier débute sa carrière chez KPMG en 1982. Il travaille ensuite deux ans au ministère français des Affaires étrangères. En 1985, il entre chez J.P. Morgan à Paris, où il occupe différents postes senior. En 1994, il intègre le bureau londonien de J.P. Morgan en tant que vice-président, où il dirige l'Insurance Product Group. M. Wauthier rejoint Zurich en 1996 en qualité de responsable des crédits aux entreprises et risques de placements. Entre 1999 et 2002, il travaille comme directeur des relations avec les investisseurs et chef de gestion des agences de notation, avant de devenir en 2002 vice-président exécutif et Chief Financial Officer de Farmers Group, Inc., filiale détenue à 100% par Zurich. En 2007, il devient trésorier du Groupe, puis Head of Centrally Managed Businesses en 2010. Il occupe son poste actuel depuis octobre 2011.
**Mandats externes:** M. Wauthier est membre de l'European Insurance CFO Forum depuis 2011.
**Formation:** Pierre Wauthier est titulaire d'un diplôme supérieur en finance internationale de l'École des Hautes Études Commerciales de Paris et d'une maîtrise en droit privé de l'Université de la Sorbonne à Paris.

# Rapport sur la gouvernance d'entreprise *suite*

**Modifications intervenues dans la composition du GEC depuis le 1er janvier 2013**
Aucun changement n'est intervenu dans la composition du GEC depuis le 1er janvier 2013.

**Contrats de gestion**
Zurich Insurance Group SA n'a pas transféré par contrat des parties substantielles de sa gestion à d'autres sociétés (ou individus) n'appartenant pas au Groupe (ou n'étant pas employés par ce dernier).

## Droits de participation des actionnaires

**Limitations des droits de vote et représentation**
Chaque action inscrite au registre des actions donne droit à une voix à son titulaire. Il n'y a pas de limitation des droits de vote.

Un actionnaire ayant le droit de vote peut participer en personne aux Assemblées générales des actionnaires de Zurich Insurance Group SA. Il ou elle peut autoriser par écrit tout autre actionnaire ayant le droit de vote ou toute personne autorisée aux termes des statuts et d'une directive plus détaillée du Conseil d'administration à le ou la représenter à l'Assemblée générale. Aux termes des statuts, les mineurs ou pupilles peuvent se faire représenter par leur représentant légal, les personnes mariées par leur conjoint et une personne morale peut être représentée par une personne autorisée à l'engager par sa signature, même si de telles personnes ne sont pas actionnaires.

Par ailleurs, des droits de représentation peuvent être accordés à une personne indépendante disposant du droit de vote par procuration, à un représentant légal ou à une banque détentrice d'actions déposées. Ces tierces parties ne doivent pas nécessairement être actionnaires. En outre, Zurich offre pour la première fois à ses actionnaires la possibilité de donner des instructions de vote à l'occasion de l'Assemblée générale ordinaire 2013 par le biais de la plate-forme en ligne Sherpany. Tous les actionnaires ayant signé et renvoyé le formulaire d'ouverture de compte Sherpany correspondant avant le 17 février 2013 inclus seront en mesure d'utiliser cette option en ligne à compter du 8 mars 2013 pour donner procuration par voie électronique soit à un fondé de pouvoir indépendant, soit au fondé de pouvoir de l'entreprise pour voter en leur nom lors de l'Assemblée générale ordinaire 2013. Les nouveaux actionnaires et ceux qui ne se sont pas inscrits cette année auront la possibilité de le faire dans les années à venir.

Zurich Insurance Group SA peut, dans certaines circonstances, autoriser les ayants droit économiques des actions qui sont détenues par des nominees professionnels (une société de fiducie, une banque, un gestionnaire d'actifs professionnel, un organisme de compensation, un fonds de placement ou toute autre entité reconnue par Zurich Insurance Group SA), à assister aux Assemblées générales des actionnaires et à exercer des droits de vote pour le compte du nominee en question. Pour plus de détails, voir pages 22 et 23.

Zurich Insurance Group SA a remis des appareils de vote électronique à ses actionnaires pour qu'ils votent toutes les résolutions prises lors de l'AGO du 29 mars 2012. Conformément aux usages suisses, Zurich Insurance Group SA informe tous les actionnaires, dès le début de l'Assemblée générale, du nombre total des votes par procuration qu'elle a reçu.

**Quorums statutaires**
Conformément aux statuts, l'Assemblée générale des actionnaires constitue un quorum, indépendamment du nombre d'actionnaires présents et du nombre d'actions représentées. Les résolutions et les élections requièrent généralement l'approbation d'une majorité simple des voix attribuées, à l'exclusion des abstentions, votes blancs et votes non valides, à moins que des dispositions statutaires correspondantes (ce qui n'est pas le cas) ou des dispositions légales impératives ne stipulent autre chose. En vertu de l'article 704 du Code suisse des obligations, certaines décisions importantes ne peuvent être prises que si elles recueillent les deux tiers des voix attribuées aux actions représentées et la majorité absolue des valeurs nominales représentées. Sont entre autres concernées la modification du but social ou du siège social de la société, la dissolution de la société et les questions ayant trait aux augmentations de capital. En cas d'égalité des voix, la voix du président du Conseil d'administration est déterminante.

**Convocation des assemblées d'actionnaires**
Les assemblées d'actionnaires sont convoquées par le Conseil d'administration ou, si nécessaire, par les auditeurs ou d'autres organes conformément aux articles 699 et 700 du Code suisse des obligations. Les actionnaires avec droit de vote qui représentent ensemble au moins 10% du capital-actions peuvent convoquer une Assemblée générale en indiquant les points à l'ordre du jour et les propositions correspondantes. La convocation est envoyée aux actionnaires par courrier au moins 20 jours civils avant l'Assemblée et est en outre publiée dans la Feuille officielle suisse du commerce et dans plusieurs journaux.

**Ordre du jour**
Le Conseil d'administration prépare l'ordre du jour et l'envoie aux actionnaires. Les actionnaires avec droit de vote représentant collectivement des actions d'une valeur nominale d'au moins 10 000 CHF peuvent demander par écrit, au plus tard 45 jours avant la date de l'Assemblée, que des propositions spécifiques soient inscrites à l'ordre du jour.

**Inscriptions au registre des actions**
Dans le but d'assurer une procédure en ordre, le Conseil d'administration fixe, peu avant l'Assemblée générale, la date à laquelle un actionnaire doit être inscrit au registre des actions afin d'exercer ses droits de participation lors de l'Assemblée générale. Cette date est publiée, avec la convocation à l'Assemblée générale, dans la Feuille officielle suisse du commerce et dans plusieurs journaux.

## Politique d'information
Au 31 décembre 2012, Zurich Insurance Group SA compte environ 125 000 actionnaires inscrits au registre des actions, allant de particuliers à de gros investisseurs institutionnels (voir détails en page 349). Chaque actionnaire inscrit reçoit une invitation à l'Assemblée des actionnaires. La Lettre aux actionnaires fournit un récapitulatif trimestriel des activités du Groupe tout au long de l'exercice et donne un aperçu de sa performance financière. Un compte rendu des activités plus détaillé, le Rapport de gestion et les rapports semestriels sont disponibles sur le site internet www.zurich.com (http://www.zurich.com/investors/shareholderinformation/). Les versions imprimées sont disponibles sur demande. Les actionnaires ont également accès aux informations sur la présentation des résultats trimestriels sur le site internet de Zurich.

Zurich Insurance Group SA entretient un dialogue régulier avec ses investisseurs par le biais de son service Investor Relations et répond aux questions et requêtes soumises par les actionnaires institutionnels et privés. Zurich Insurance Group SA organise par ailleurs des journées portes ouvertes pour les investisseurs institutionnels et les analystes, à l'occasion desquelles leur sont communiquées des informations exhaustives sur les activités et les orientations stratégiques de la société. Ces présentations peuvent être suivies par webcast ou par conférence téléphonique. La journée des investisseurs organisée à Zurich le 29 novembre 2012 était consacrée aux progrès réalisés par le Groupe pour atteindre ses objectifs en 2013. Le Chief Executive Officer et les CEO des segments d'activité ont fait également des présentations à cette occasion. Le CFO a présenté les dernières informations disponibles sur le capital et les flux de trésorerie. Le CFO de la division Global Life a, quant à lui, détaillé les flux de trésorerie de l'activité Global Life. Enfin, l'équipe de direction Latin America a présenté les opportunités commerciales dans sa région. Une autre journée des investisseurs est programmée pour 2013. Un large éventail d'informations relatives au Groupe et à ses activités, incluant aussi les présentations des résultats susmentionnées et la documentation complète distribuée lors des journées des investisseurs, sont également disponibles à la rubrique «Investor Relations» du site internet de Zurich, www.zurich.com (http://www.zurich.com/investors).

La prochaine Assemblée générale ordinaire de Zurich Insurance Group SA se tiendra le 4 avril 2013. Elle se déroulera au Hallenstadion de Zurich-Oerlikon. Une convocation, à laquelle sera joint l'ordre du jour et le détail des résolutions proposées, sera envoyée aux actionnaires au moins 20 jours avant l'Assemblée.

Pour connaître les adresses et les autres événements importants à venir, veuillez consulter les informations aux actionnaires à la page 348 (Calendrier financier à la page 350).

## Collaborateurs
Le Groupe s'engage à offrir des chances égales lors du processus de recrutement et de promotion. Il prend ses décisions selon des critères de compétence, d'expérience, de qualification, de connaissance, d'intégrité et de diversité. Le Groupe encourage activement ses collaborateurs à s'impliquer dans ses activités en prenant connaissance des publications imprimées et en ligne, en assistant aux réunions d'information et aux réunions périodiques avec les représentants des collaborateurs. En plus le Groupe a conclu un accord volontaire avec les représentants du personnel des sociétés du Groupe en Europe. Pour en savoir davantage sur les activités de gestion des collaborateurs du Groupe, veuillez consulter le Compte rendu des activités à partir de la page 12, également disponible sur le site internet de Zurich www.zurich.com (http://www.zurich.com/internet/main/sitecollectiondocuments/financial-reports/annual-review-2012-fr.pdf).

Dans certains pays, le Groupe a établi des systèmes de rémunération en actions et des programmes d'incitation à grande échelle pour encourager les collaborateurs à devenir actionnaires du Groupe.

# Rapport sur la gouvernance d'entreprise *suite*

## Prises de contrôle et mesures de défense

**Obligation de présenter une offre**

Les statuts de Zurich Insurance Group SA ne prévoient pas de clauses d'opting-out ou d'opting-up au sens des articles 22 et 32 de la Loi fédérale sur les bourses et le commerce des valeurs mobilières. En conséquence, des offres fermes doivent être soumises lorsqu'un actionnaire ou un groupe d'actionnaires agissant conjointement dépasse 33 ⅓ pour cent du capital-actions émis et en circulation de Zurich Insurance Group SA.

**Clauses relatives aux prises de contrôle**

Des contrats de travail ont été conclus avec les membres du GEC afin de fixer les termes et conditions de leur emploi. Le plus long délai de préavis pour les membres du GEC est de 12 mois. Aucune indemnité complémentaire n'est attribuée en cas de prise de contrôle.

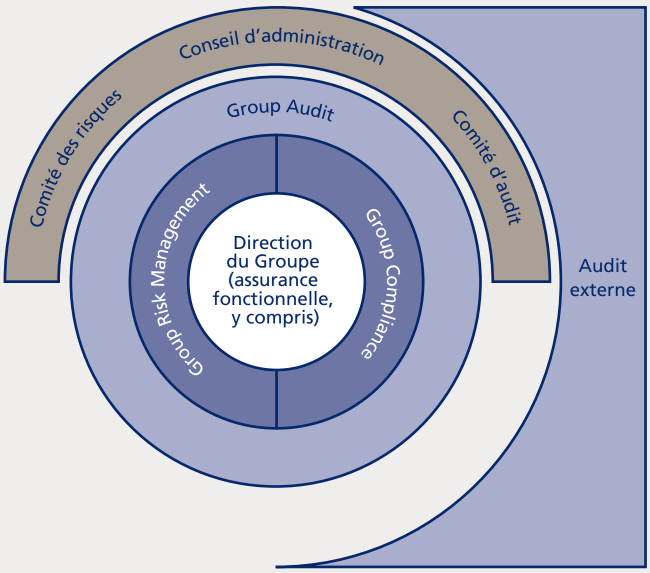
Les programmes de rémunération en actions du Groupe incluent des règlements concernant l'impact des prises de contrôle. Ces règlements prévoient qu'en cas de prise de contrôle, l'administrateur du plan (le comité des rémunérations ou le CEO, selon le cas) a le droit de faire convertir les obligations d'actions sortantes en nouveaux droits à actions ou d'offrir une contrepartie pour les obligations qui ne sont pas converties. Les participants qui perdent leur emploi à la suite d'une prise de contrôle ont droit à la dévolution des droits liés à leurs actions. Aucune autre indemnité n'est attribuée aux cadres supérieurs du Groupe en cas de prise de contrôle.

Aucune indemnité n'est prévue pour les membres du Conseil d'administration en cas de prise de contrôle.

## L'activité d'assurance du Zurich Insurance Group

Chez Zurich, diverses fonctions de gouvernance et de contrôle se coordonnent pour veiller à ce que les risques soient identifiés et dûment gérés. Des contrôles internes sont mis en place et fonctionnent de façon efficace. Le concept «d'évaluation et certification intégrées» fait référence à cette coordination. Le Conseil d'administration est responsable en dernier ressort de la supervision de ces activités de certification. Même si chaque certificateur conserve un mandat et une responsabilité propres, les certificateurs ont un fonctionnement très similaire et coopèrent les uns avec les autres. Plus précisément, ils échangent régulièrement des informations et s'informent mutuellement de leurs projets et d'autres activités. Ce mode de fonctionnement permet à la Direction d'assumer plus aisément ses responsabilités et garantit la prise en compte des risques et la mise en œuvre de mesures adéquates pour les réduire.

L'activité d'assurance de Zurich Insurance Group
au 31 décembre 2012




**Direction du groupe:**
**La direction du Groupe** est propriétaire des processus, contrôles et examens techniques liés aux activités d'assurance. Cela inclut et est renforcé par le travail d'assurance fourni par les fonctions de contrôle de la direction (p.ex., souscription, actuariat, sinistres) et les fonctions juridique et financière.

**Surveillance:**
**Group Risk Management** gère le cadre de gestion des risques des entreprises de Zurich.
Le Chief Risk Officer rend régulièrement compte des questions de risque au CEO, aux comités de la haute direction ainsi qu'au comité des risques du Conseil d'administration.

**Group Compliance** a pour mission de garantir à la direction que les risques de compliance dans le cadre de son mandat sont correctement identifiés et gérés.
Le Group Compliance Officer remet régulièrement des rapports au comité d'audit. Il fait également remonter des informations au président du comité d'audit et dispose d'un accès approprié au président du Conseil d'administration.

**Assurance indépendante:**
**Group Audit** réalise l'audit de la gestion des risques, du contrôle des risques et des processus de gouvernance. Le Head of Group Audit rencontre régulièrement le président du Conseil d'administration et assiste à toutes les réunions du comité d'audit.

**Les auditeurs externes** réalisent l'audit des états financiers du Groupe et vérifient que Zurich satisfait aux exigences réglementaires spécifiques. Le comité d'audit rencontre régulièrement les auditeurs externes.

**Conseil d'administration – comité d'audit et comité des risques:**
Le Conseil d'administration est la plus haute instance de surveillance des activités d'assurance. Les comités d'audit et des risques reçoivent régulièrement, tout au long de l'année, des informations mises à jour de la part de Group Risk Management, Group Audit, des auditeurs externes et de Group Compliance.

## Auditeurs externes

**Durée du mandat et durée de la fonction de l'auditeur mandaté**

PricewaterhouseCoopers AG, Birchstrasse 160, 8050 Zurich (PwC), est l'auditeur externe de Zurich Insurance Group.

PwC assume toutes les fonctions d'audit requises par la loi et par les statuts de Zurich Insurance Group SA. Les auditeurs externes sont élus pour une année par les actionnaires de Zurich Insurance Group SA. Lors de l'Assemblée générale ordinaire du 29 mars 2012, PwC a été réélue par les actionnaires de Zurich Insurance Group SA. Le Conseil d'administration propose la reconduction du mandat d'auditeur externe de PwC pour l'exercice 2013 lors de la prochaine Assemblée générale ordinaire. PwC répond à toutes les exigences de la Loi fédérale sur l'agrément et la surveillance des réviseurs et a été agréée au titre de société d'audit par l'Autorité fédérale de surveillance en matière de révision.

PwC et ses prédécesseurs, Coopers&Lybrand et Société Fiduciaire Suisse SA, sont/ont été auditeurs externes de Zurich Insurance Group SA et des organisations qui l'ont précédée depuis le 11 mai 1983. En 2000 et en 2007, le Groupe a lancé des appels d'offres invitant tous les grands cabinets d'audit à soumettre leurs programmes de travail et leurs

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offres. Après un examen approfondi des dossiers, en 2000 comme en 2007, le Groupe est parvenu à la conclusion que le programme de travail de PwC et son offre étaient supérieurs aux autres. Il a donc proposé la réélection de PwC.

M. Richard Burger, de PricewaterhouseCoopers AG, a exercé la fonction d'auditeur principal du début de 2011 à la fin de l'exercice 2012. Il est l'auditeur mandaté pour les travaux statutaires et réglementaires depuis 2008. Le Groupe exige la rotation des auditeurs principaux après cinq ans au service de Zurich. M. Stephen O'Hearn a pris la place de M. Patrick Shouvlin en tant que Global Relationship Partner et a cosigné le rapport d'audit pour l'exercice 2012.

**Honoraires d'audit**
Le total des honoraires (frais divers et TVA compris) facturés par PwC en 2012 s'élève à 43,9 millions d'USD (38,0 millions d'USD en 2011).

**Honoraires additionnels**
Le total des honoraires (frais divers et TVA compris) facturés en 2012 pour les services additionnels (p. ex. services fiscaux et juridiques, services de conseil en transactions ou audits spéciaux requis par la législation locale ou les instances de régulation) fournis par PwC et les parties associées pour le compte de Zurich Insurance Group SA ou pour l'une des sociétés du Groupe s'élève à 6,4 millions d'USD (4,6 millions d'USD en 2011). Le détail des honoraires additionnels figure dans le tableau ci-dessous.

Montant des honoraires d'audit et additionnels

| en millions d'USD, au 31 décembre | 2012 | 2011 |
|---|---|---|
| **Total des honoraires d'audit** | **43,9** | **38,0** |
| | | |
| **Total des honoraires additionnels** | **6,4** | **4,6** |
| – Conseils fiscaux | 0,8 | 0,5 |
| – Conseils juridiques | 0,0 | 0,0 |
| – Conseils sur les transactions et la due diligence requise | 0,1 | 0,1 |
| – Conseils relatifs aux audits | 4,0 | 2,3 |
| – Autres | 1,5 | 1,7 |

**Supervision et contrôle du processus d'audit externe**
Le comité d'audit rencontre régulièrement les auditeurs externes, au moins quatre fois par an. En 2012, le comité d'audit a rencontré sept fois les auditeurs externes. Les auditeurs externes ont des sessions privées régulières avec le comité d'audit, sans la présence de la Direction générale. Sur la base de rapports écrits, le comité d'audit discute avec les auditeurs externes de la qualité des fonctions des finances et de la comptabilité du Groupe et de toutes les recommandations que les auditeurs externes pourraient soumettre. Les sujets traités au cours de ces discussions incluent le renforcement des contrôles financiers internes, les normes comptables applicables et les systèmes d'établissement de rapports à l'attention de la Direction générale. Dans le cadre de l'audit, le comité d'audit obtient des auditeurs externes, dans des délais raisonnables, un rapport sur les états financiers révisés de Zurich Insurance Group SA et du Groupe.

Le comité d'audit supervise le travail des auditeurs externes. Il vérifie, au moins une fois par an, la qualification, la performance et l'indépendance des auditeurs externes et examine tous les aspects pouvant altérer leur objectivité et leur indépendance sur la base d'un rapport écrit des auditeurs externes qui décrit les procédures internes du contrôle de la qualité, tous les problèmes importants rencontrés et toutes les relations entre les auditeurs externes et le Groupe et/ou ses collaborateurs pouvant être considérées comme ayant une influence sur l'indépendance des auditeurs externes. Le comité d'audit évalue la collaboration avec les auditeurs externes durant leur examen d'audit. Il recueille les commentaires de la Direction générale concernant la performance (en fonction de critères tels que la compréhension des activités de Zurich, les connaissances techniques et l'expertise, etc.) et la qualité de la relation de travail (réceptivité des auditeurs externes aux besoins de Zurich Insurance Group SA et du Groupe, clarté de la communication). Le comité d'audit examine, avant le début de l'audit annuel, l'ampleur et l'étendue générale des activités des auditeurs externes et suggère les domaines devant faire l'objet d'une attention particulière.

Le comité d'audit propose les auditeurs externes au Conseil d'administration pour élection par les actionnaires et est responsable de l'approbation des honoraires d'audit. Une proposition d'honoraires pour les services d'audit est soumise par les auditeurs externes et validée par la Direction générale avant d'être soumise à l'approbation du comité d'audit. Une telle proposition est basée principalement sur une analyse des unités de communication de l'information financière existantes et des changements attendus dans la structure juridique et opérationnelle durant l'année.

Le comité d'audit a approuvé un règlement écrit sur le recours aux auditeurs externes pour des services ne relevant pas de l'audit et qui expose les règles relatives à la prestation de tels services et les questions y afférentes (ainsi qu'une liste de services prohibés). Les services admissibles, ne relevant pas de l'audit, peuvent inclure les conseils et les services fiscaux, les lettres d'accord (comfort letters) et les lettres de consentement (consent letters), les certifications et attestations, le soutien en matière d'audit ou de due diligence dans certaines transactions, dans la mesure où de telles activités répondent aux exigences légales et réglementaires applicables et ne compromettent pas leur indépendance ou objectivité en tant qu'auditeur externe. Afin d'éviter les conflits d'intérêts, tous les services admissibles ne relevant pas de l'audit doivent être approuvés au préalable par le comité d'audit (président), le Group Chief Financial Officer ou le CFO local, selon le niveau d'honoraires prévisible. Ce règlement exige également, entre autres choses, une lettre de mission qui spécifie les services devant être fournis et mentionne l'obligation qu'ont les auditeurs externes de se conformer à ce règlement.

## Group Audit

La fonction d'audit interne du Groupe («Group Audit») a pour but de fournir des gages d'indépendance et d'objectivité au Conseil d'administration, au comité d'audit, au CEO, à la Direction générale et aux conseils d'administration et comités d'audit des filiales. Pour ce faire, l'auditeur interne élabore un plan en fonction des risques, lequel est mis à jour au fur et à mesure que l'activité commerciale évolue. Ce plan couvre l'intégralité des risques économiques, dont les préoccupations et problèmes soulevés par le comité d'audit, la Direction générale et d'autres parties prenantes. Group Audit met en œuvre le plan conformément aux règles d'exécution définies, lesquelles incorporent et observent les Normes internationales pour la pratique professionnelle de l'audit interne, édictées par l'Institute of Internal Auditors (IIA). Les questions essentielles décelées par Group Audit sont communiquées à la fonction de gestion responsable, au CEO et au comité d'audit à l'aide d'une série d'outils de communication de l'information financière.

Le comité d'audit, les conseils d'administration et comités d'audit des filiales et le CEO sont régulièrement informés des constatations importantes de l'audit, y compris des mauvaises opinions, des actions correctrices engagées et de l'attention accordée par la Direction générale. Group Audit est tenu de s'assurer que les problèmes pouvant avoir un impact sur le fonctionnement du Groupe sont portés à l'attention du comité d'audit et aux niveaux de direction appropriés, et que les mesures requises sont prises dans des délais raisonnables. Pour faciliter l'exécution de cette tâche, le Head of Group Audit assiste à toutes les réunions du comité d'audit.

Group Audit est autorisé à examiner toutes les secteurs du Groupe et dispose d'un accès illimité à toutes les activités, comptes, dossiers, biens et collaborateurs du Groupe nécessaires à l'accomplissement de son travail. Dans le cadre de sa mission, Group Audit tient compte du travail exécuté par d'autres fonctions d'assurance. Group Audit coordonne notamment ses activités avec les auditeurs externes, en partageant l'évaluation des risques, les plans de travail, les rapports d'audit et les mises à jour sur les actions d'audit. Group Audit et les auditeurs externes se rencontrent régulièrement à tous les niveaux de l'organisation pour optimiser l'efficacité et les garanties.

Le comité d'audit évalue l'indépendance de Group Audit et examine ses activités, ses plans, son organisation et la qualité de son travail, ainsi que la coopération mutuelle avec les auditeurs externes. La fonction d'audit interne doit faire l'objet de contrôles qualité à intervalles réguliers conformément aux exigences des organismes professionnels et réglementaires en matière d'assurance de la qualité mais au moins tous les cinq ans par un organisme accrédité indépendant. Cet examen a été réalisé pour la dernière fois en 2011. Les résultats ont confirmé que les pratiques de Group Audit satisfont aux normes de l'Institute of Internal Audit (IIA) et aux exigences de la FINMA et que Group Audit est considéré comme une fonction d'audit interne très avancée.

Le comité d'audit approuve chaque année le plan de Group Audit et examine au moins tous les trois mois les rapports de la fonction sur ses activités, ainsi que les questions importantes en lien avec les risques, le contrôle et la gouvernance. Le Head of Group Audit établit ses rapports fonctionnels à l'attention du comité d'audit et ses rapports administratifs à l'attention du CEO. Il rencontre régulièrement le président du Conseil d'administration. Group Audit n'a pas de responsabilité opérationnelle dans les domaines audités et, dans un souci d'indépendance, tout le personnel de Group Audit est placé sous l'autorité du Head of Group Audit (par l'intermédiaire des responsables d'audit).

## Group Compliance

Les valeurs centrales du Groupe sont fondées sur le principe du respect de la loi et sur le souci de faire ce qui est juste. Une compliance saine dans toutes les activités du Groupe contribue à protéger la réputation de Zurich et promeut la réalisation des objectifs ambitieux du Groupe.

La fonction compliance fournit des règlements et des directives, prodigue des conseils de gestion, dispense des formations et s'assure de l'exécution de contrôles de compliance appropriés dans le cadre de son mandat. Ces contrôles

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de compliance comprennent des examens permanents des lois, des réglementations et des autres exigences à tous les niveaux de l'organisation. La fonction compliance assiste la Direction générale de Zurich à entretenir et à promouvoir une culture de compliance et une éthique fidèles aux Zurich Basics, le code de conduite de notre société. Ce cadre robuste de compliance repose sur une évaluation continue des risques de compliance au niveau mondial pour promouvoir un solide régime de surveillance. Les résultats de cette évaluation étayent la planification stratégique de la fonction compliance, qui est conduite en consultation avec des partenaires commerciaux. Le plan de Compliance est présenté chaque année au comité d'audit.

Dans le cadre d'un programme complet, la fonction compliance met en place, intègre et applique des règlements et directives internes. Nos spécialistes de la compliance, qui en font partie, présentent les règles en vigueur aux nouveaux collaborateurs et participent à l'intégration des sociétés nouvellement acquises. Pour mieux comprendre leurs responsabilités en vertu des Zurich Basics et des règlements internes, tous les collaborateurs suivent une formation régulière en matière d'éthique et de compliance. La fonction Group Compliance pilote en outre des campagnes internes de sensibilisation aux pratiques éthiques et réglementaires. Chaque année, les cadres de Zurich confirment qu'ils comprennent les Zurich Basics ainsi que les règlements internes et qu'ils les observent. Zurich encourage ses collaborateurs à s'exprimer et à faire part des comportements incorrects par le biais, notamment, de la Zurich Ethics Line, un service téléphonique et Internet. Zurich ne tolère pas les représailles à l'encontre de collaborateurs qui signalent en toute bonne foi de tels problèmes.

La fonction Group Compliance, assumée par des professionnels de la compliance répartis aux quatre coins du globe, est supervisée par le Group Compliance Officer, qui relève du Group General Counsel et remet aussi régulièrement des rapports au comité d'audit. Le Group Compliance Officer remet aussi des comptes rendus au président du comité d'audit et s'entretient régulièrement avec le président du Conseil d'administration.

## Gestion des risques et déclaration de contrôle interne

Le Conseil d'administration est chargé de superviser les systèmes de gestion des risques et de contrôle interne du Groupe, placés sous la responsabilité de la Direction générale. Les systèmes sont conçus davantage pour gérer que pour éliminer les risques de non-réalisation des objectifs commerciaux, et ne sauraient constituer un garde-fou absolu contre des informations erronées ou des pertes financières importantes. Au niveau du Conseil d'administration, deux comités ont la responsabilité première de superviser la gestion des risques et le contrôle interne:

- le comité des risques – qui supervise la gestion des risques et
- le comité d'audit – qui supervise les questions relatives au contrôle interne.

La Direction locale, avec à sa tête le CEO de l'entité juridique, est chargée de maintenir des contrôles adéquats et de veiller à ce que les risques soient dûment identifiés et maîtrisés. Elle rencontre fréquemment les fonctions de gestion des risques et autres fonctions d'assurance afin de garantir l'efficacité du système d'identification et d'atténuation des risques et la pertinence des contrôles internes. En outre, un examen régulier des rapports établis par la fonction de gestion des risques et d'autres fonctions d'assurance est effectué par (1) les conseils d'administration des filiales ou les comités d'audit des conseils d'administration des filiales et également par (2) les comités régionaux de supervision en charge des filiales en Amérique latine, en Asie-Pacifique, au Moyen-Orient et dans certains pays d'Europe. Les comités d'audit des conseils d'administration des filiales sont composés d'administrateurs des entités juridiques concernées, y compris, dans certains cas, d'administrateurs indépendants sans pouvoir exécutif. Les comités régionaux de supervision sont composés en majorité de membres indépendants issus de la Direction générale du Groupe qui n'ont pas de responsabilité directe ou indirecte dans les activités opérationnelles de la filiale concernée. Les certificateurs sont également conviés à participer. Les résultats de ces révisions sont communiqués au CEO du Groupe, au comité des risques, au comité d'audit et au Conseil d'administration, le cas échéant.

Le Groupe a adopté une approche coordonnée et formelle de la gestion des risques et du contrôle interne. Les systèmes et règlements essentiels de gestion des risques et de contrôle interne du Groupe sont institués au niveau du Groupe et mis en œuvre à l'échelle du Groupe. Cette approche se concentre principalement sur les risques majeurs susceptibles d'avoir un impact sur la réalisation des objectifs commerciaux du Groupe ainsi que sur les activités permettant d'encadrer et de surveiller ces risques, permettant ainsi de contribuer à l'efficacité du contrôle. Un environnement conscient des risques et du contrôle nécessaire est ainsi favorisée au sein du Groupe et renforcé par la communication et par la formation.

Une gestion efficace des risques est déterminante pour bien gérer les activités. La Direction générale est responsable de l'identification, de l'évaluation et de la gestion des risques significatifs. Le Groupe gère les risques dans toute l'organisation, sous la supervision de la Direction générale. Zurich s'est dotée d'une politique de gestion des risques à l'échelle du Groupe ainsi que de méthodes et d'outils communs d'évaluation et de modélisation des risques. Les processus d'évaluation des risques du Groupe sont alignés sur le processus de planification du Groupe et sont examinés par le Comité exécutif du Groupe et le comité des risques du Conseil d'administration. Les risques significatifs, les résultats des processus d'évaluation et de modélisation ainsi que les actions importantes en résultant font l'objet de rapports réguliers à l'intention du comité des risques du Conseil d'administration. Des évaluations locales périodiques des risques sont réalisées à l'aide de l'outil Total Risk Profiling™ de Zurich et les unités opérationnelles sont tenues, au moins une fois par trimestre, d'examiner les principaux risques et de mettre en œuvre des plans d'action visant à les atténuer. Des informations complémentaires sont fournies au chapitre Risk review du Rapport de gestion.

Le système de contrôle interne se concentre sur les principaux contrôles liés aux opérations, à la compliance et à la communication de l'information financière. Le système englobe les règlements, les processus et les activités qui contribuent à la fiabilité des rapports financiers, à l'efficacité et à l'efficience des opérations ainsi qu'au respect des lois et des règlements. En 2012, de nouveaux progrès ont été réalisés pour développer et améliorer le système de contrôle du Groupe tout en continuant de mettre l'accent sur l'efficacité de l'environnement global de contrôle interne.

Le plan d'affaires annuel du Groupe inclut des considérations relatives à la gestion des risques, ainsi que des orientations stratégiques et commerciales, des informations financières et des indicateurs clés. En cours d'exercice, le Conseil d'administration, le comité des risques, le comité d'audit et la Direction générale du Groupe reçoivent régulièrement des rapports résumant les conditions financières, la performance financière et opérationnelle comparée au plan, de même que les principales expositions aux risques.

Les processus et contrôles au sein de l'organisation sont soumis à des examens axés sur les risques par la Direction générale et les fonctions Group Audit, Group Compliance et Group Risk Management. Ces examens incluent la mise en œuvre effective de règlements et de procédures portant sur les sinistres, les placements, la souscription, la pratique actuarielle, la trésorerie, la comptabilité et la communication de l'information financière, ainsi que sur l'efficacité du contrôle pour les activités importantes et les systèmes de technologies de l'information. Le Conseil d'administration et ses comités d'audit et des risques reçoivent des rapports réguliers et, si nécessaire, des rapports spéciaux du Chief Risk Officer, du Group General Counsel, du Head of Group Compliance, du Group Chief Financial Officer and Group Controller, du Head of Group Audit et des cadres supérieurs des divisions financières et commerciales. Par ailleurs, les auditeurs externes font régulièrement part de leurs conclusions, observations et recommandations résultant de leur processus d'audit indépendant.

Les rapports traitent de sujets tels que: a) les changements significatifs au niveau des risques, de l'environnement économique et de l'environnement externe; b) la surveillance des risques et de l'efficacité des systèmes de contrôle par la Direction; c) la communication en matière de risque et de contrôle; d) les problèmes majeurs de contrôle, le cas échéant, et e) l'efficacité du processus externe de reddition de comptes du Groupe.

Le comité des risques a examiné l'efficacité du système de gestion des risques du Groupe, y compris la tolérance au risque du Groupe et le cadre de gouvernance des risques à l'échelle du Groupe. Le comité d'audit a examiné l'efficacité du système de contrôle interne pratiqué par le Groupe pour l'année civile 2012 jusqu'à la date du Rapport de gestion. Les deux comités ont présenté leurs conclusions au Conseil d'administration. Le Conseil d'administration est satisfait que les examens réalisés par son comité d'audit et son comité des risques ont été menés conformément à la Turnbull Guidance édictée au Royaume-Uni (telle que révisée en octobre 2005). L'évaluation a intégré l'étude de l'efficacité du processus engagé par le Groupe afin d'identifier, d'évaluer, de contrôler et de gérer les risques inhérents à l'activité, y compris l'étendue et la fréquence des rapports sur la gestion des risques et le contrôle interne reçus et examinés durant l'année par les comités des risques et d'audit et par le Conseil d'administration, les questions importantes relatives aux risques et au contrôle qui ont été évoquées ainsi que les mesures correspondantes prises par la Direction générale. Les problèmes identifiés, y compris les ajustements comptables dans l'activité d'assurance dommages en Allemagne, ont été communiqués au Conseil d'administration. Ils ont été traités ou sont en train de l'être par le Groupe.

Les opérations liées à l'alliance à long terme conclue avec Banco Santander en 2011 adoptent progressivement le cadre de gestion des risques de Zurich et continuent de s'appuyer sur leur système de contrôle interne actuel.

## Continuité de l'exploitation

Après avoir examiné la performance du Groupe et les prévisions pour l'année à venir, les membres du Conseil d'administration sont convaincus que le Groupe dispose des ressources adéquates pour poursuivre ses activités dans un futur prévisible. Pour cette raison, les administrateurs ont adopté le principe de continuité de l'exploitation pour la préparation des états financiers.

# Rapport sur les rémunérations

Le Rapport sur les rémunérations décrit les principes et le cadre de gouvernance en matière de rémunération des membres du Conseil d'administration, du Comité exécutif du Groupe et de l'ensemble des collaborateurs. Il fournit également des détails sur chaque élément de rémunération et rend compte des travaux du comité des rémunérations.

En 2012, le Conseil d'administration a continué de superviser et de prendre des décisions sur l'élaboration et la mise en œuvre des principes, des règles et de la structure de rémunération. L'évaluation précédente selon laquelle ces principes, ces règles et cette structure de rémunération sont cohérents avec l'application de la stratégie du Groupe et reflètent les meilleures pratiques internationales en termes de gouvernance, de planification et de transparence s'est de nouveau avérée exacte. La structure de rémunération du Groupe est simple, transparente et compétitive sur le marché. Elle promeut une culture de haute performance, est en adéquation avec nos principes de gestion de risque et est centrée sur le long terme pour les principaux preneurs de risques (Key Risk Takers).

## Sommaire

## Résumé des rémunérations 2012

Le résumé ci-dessous fournit une vue d'ensemble des principaux aspects des rémunérations chez Zurich en 2012.

**Gouvernance en matière de rémunération et philosophie**
Le Conseil d'administration est responsable de la définition, de la mise en œuvre et de la surveillance de la structure de rémunération du Groupe. Il a créé un comité des rémunérations qui est chargé, entre autres, de proposer au Conseil d'administration sur une base annuelle la rémunération à verser aux membres du Conseil d'administration, au Chief Executive Officer (CEO) et aux autres membres du Comité exécutif du Groupe (GEC). Il évalue aussi la performance individuelle et celle de l'entreprise en liaison avec les primes d'incitation et propose une enveloppe de dépense globale pour la rémunération variable.

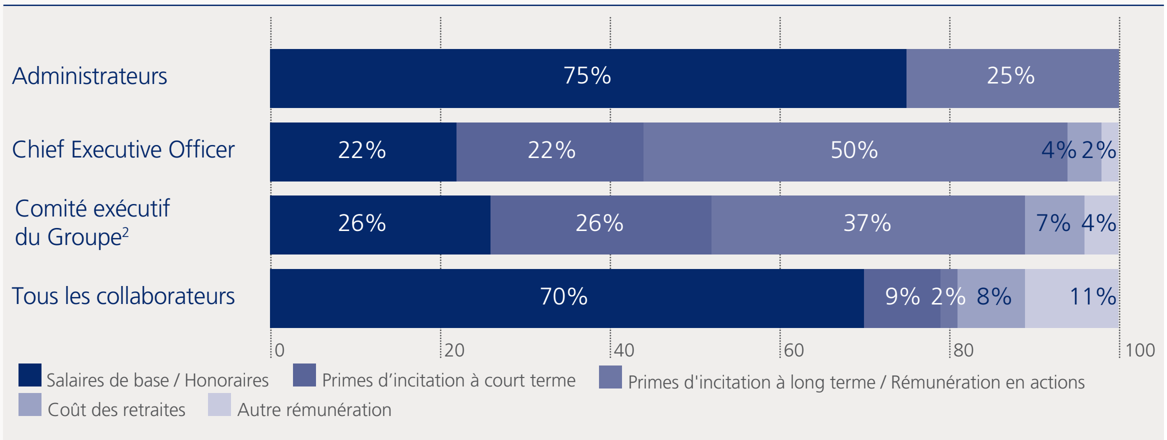
Zurich applique un système de rémunération équilibré et géré efficacement qui prend en compte les considérations de risques et offre des opportunités de rémunération compétitives capables d'attirer, de conserver et de motiver les collaborateurs, leur permettant ainsi de fournir une performance exceptionnelle. La rémunération totale de chaque collaborateur est influencée par des facteurs tels que l'étendue et la complexité du poste, la performance de la société et sa capacité financière, la performance individuelle, les comparaisons internes, la compétitivité externe et les exigences légales. Les opportunités cibles sont comparées aux niveaux médians dans des marchés clairement définis et tiennent compte des structures internes. En fonction du poste, le marché de référence peut être mondial, régional ou local et reflète les pratiques soit du secteur de l'assurance, soit du secteur des services financiers ou encore de l'industrie dans son ensemble.



**Vue d'ensemble des rémunérations**
La rémunération totale inclut le salaire de base, les primes d'incitation à court et à long terme et les avantages du personnel. Les plans d'incitation à court et à long terme utilisés dans le cadre de la rémunération variable sont liés à des indicateurs de performance adéquats et l'enveloppe globale consacrée à la rémunération variable est déterminée en fonction de la performance économique du Groupe à long terme.

La rémunération variable est structurée de telle sorte qu'en moyenne, elle dépend davantage de la performance durable à long terme pour les collaborateurs du Groupe les plus haut placés, y compris les principaux preneurs de risques (Key Risk Takers). Cela garantit l'étalement dans le temps d'une part significative de la rémunération variable des preneurs de risques.

**Structure de rémunération 2012 et pondération des éléments**[1]




[1] Rémunération cible, en % de la rémunération totale.
[2] Y compris le Chief Executive Officer.

**Rémunération 2012**
Les décisions en matière de rémunération prises en 2012 l'ont été dans un souci d'équilibre approprié entre l'ensemble des facteurs pertinents: performance de l'entreprise, considérations relatives au marché, exigences réglementaires, priorités générales à long terme, considérations relatives au risque, etc. En ce qui concerne la rémuneration du Conseil d'administration, aucune modification n'a été apportée en 2012 et celle-ci restera inchangée en 2013. En 2012, les changements dans la rémunération des membres du GEC, le cas échéant, visaient à accroître la partie à long terme de la rémunération

# Rapport sur les rémunérations *suite*

variable, de sorte qu'au moins 60% de la rémunération variable soit différée et soumise aux conditions de performance à long terme. Plus généralement, les décisions en matière de rémunération des collaborateurs se sont efforcées de maintenir un équilibre entre, d'une part, la structure globale de rémunération et, d'autre part, les considérations relatives à la performance de l'entreprise, au marché, au risque et à la réglementation.

Pour 2012, les principaux chiffres de rémunération étaient les suivants:

## Principaux chiffres de rémunération

| en millions d'USD, pour les exercices arrêtés au 31 décembre | **Salaires de base / Honoraires** | **Primes d'incitation à court terme[1]** | **Primes d'incitation à long terme[2]** | **Autre rémunération[3]** | **Rémunération totale 2012[4]** | Rémunération totale 2011[4] |
|---|---|---|---|---|---|---|
| Administrateurs | 3,4 | – | 1,2 | – | 4,6 | 4,7 |
| Comité exécutif du Groupe | 12,0 | 12,3 | 16,8 | 5,3 | 46,4 | 50,3 |
| Tous les collaborateurs | 4 036 | 465 | 131 | 1 114 | 5 746 | 5 656 |

[1] Pour tous les collaborateurs, cela équivaut aux primes en espèces octroyées dans l'année.
[2] Inclut les honoraires versés aux administrateurs sous forme d'actions restreintes à la vente.
[3] Inclut les autres avantages du personnel, les prestations de retraite et les autres coûts relatifs aux rémunérations.
[4] Montant réel, brut et, pour les montants en espèces, basé sur le principe de séparation des exercices.

Les dépenses de rémunération doivent être rapportées au chiffre d'affaires, aux fonds propres et à la rentabilité de Zurich. Les principaux chiffres sont présentés dans le tableau ci-dessous et reflètent les données relatives aux exercices 2012 et 2011:

## Chiffres financiers clés

| en millions d'USD, pour les exercices arrêtés au 31 décembre | **2012** | 2011[1] |
|---|---|---|
| Primes émises brutes et commissions[2] | 56 823 | 52 967 |
| Bénéfice d'exploitation | 4 075 | 4 243 |
| Bénéfice net attribuable aux actionnaires | 3 878 | 3 750 |
| Fonds propres attribuables aux actionnaires | 34 494 | 31 484 |
| Rendement des fonds propres ordinaires | 11,8% | 11,9% |
| Dividendes versés aux actionnaires[3] | 2 763 | 2 706 |
| Enveloppe de rémunération variable totale avant impôts | 608 | 618 |
| – en pourcentage des primes émises brutes et commissions | 1% | 1% |
| – en pourcentage des fonds propres attribuables aux actionnaires | 2% | 2% |

[1] Tel que retraité au 31 décembre 2011 (cf. note 1 des Consolidated financial statements).
[2] Primes émises brutes et accessoires de primes de 53 977 USD et commissions de gestion de Farmers et autres produits assimilés de 2 846 USD.
[3] Dividende exprimé sur la base du taux de change en vigueur le jour de la transaction en 2012 et en 2011, respectivement.

Comme le montrent ces indicateurs, les dépenses de rémunération variable constituent des pourcentages relativement faibles par rapport au chiffre d'affaires et aux fonds propres de Zurich. Pour fixer le montant de l'enveloppe globale de rémunération variable pour l'ensemble des collaborateurs (cf. pages 62 et 79), le Conseil d'administration examine, entre autres facteurs, la performance économique à long terme du Groupe. A cet égard, le Groupe a dégagé un bénéfice économique sur le long terme qui excède le montant réel de l'enveloppe consacrée à la rémunération variable. En 2012, l'enveloppe globale du plan d'incitation à court terme du Groupe (Group STIP) a abouti à un niveau d'acquisition de 91% de la cible, contre 97% de la cible pour le plan d'incitation à long terme du Groupe (Group LTIP) pour les années 2010 à 2012.

Pour faire converger leurs intérêts avec ceux des actionnaires, les membres du Conseil d'administration et du GEC constituent leur participation au capital de la société. Au 31 décembre 2012, les administrateurs détenaient 65 620 actions et les membres du GEC 118 899 et 439 520 options. Il existe des directives sur la détention d'actions, qui sont abordées plus en détails en page 63. Pour satisfaire aux obligations des plans de rémunération en actions, Zurich a émis 914 301 nouvelles actions en 2012 et 798 926 nouvelles actions en 2011. Vous trouverez des détails supplémentaires sur l'impact dilutif des plans de rémunération en actions en page 60.

**Résumé des principaux aspects liés à la rémunération en 2012**
Outre le contexte de rémunération et les résultats décrits, d'autres aspects majeurs pour l'exercice 2012 sont détaillés ci-dessous:

- Le système de rémunération tel que présenté dans le rapport sur les rémunérations 2011 a été soumis à un vote consultatif non-contraignant des actionnaires à l'occasion de l'Assemblée générale ordinaire du 29 mars 2012, qui a recueilli 84,8% de voix favorables.

- Suite au départ en retraite de MM. Manfred Gentz et Vernon Sankey en mars 2012, l'Assemblée générale ordinaire a approuvé l'élection de Mlle Alison Carnwath et de M. Rafael del Pino au Conseil d'administration. Ces deux nouveaux membres ont remplacé les membres sortants et ont rejoint MM. Josef Ackermann et Thomas Escher au sein du comité des rémunérations. M. Thomas Escher a été nommé à la présidence du comité des rémunérations en 2012.

- Le comité a examiné les mesures de performance dans le cadre des plans d'incitation à court terme et à long terme pour 2012.

- Au niveau des postes de Key Risk Taker, les critères et les processus utilisés pour l'identification à l'échelle du Groupe et l'évaluation de la performance de ces postes ont été examinés et améliorés en 2012 avec, en particulier, la mise en place de processus supplémentaires pour inclure les facteurs fondés sur le risque dans l'évaluation de la performance globale des Key Risk Takers en 2012. Le Groupe a élargi le nombre de ces postes de Key Risk Taker en 2012.

Gouvernance

# Rapport sur les rémunérations 2012

**Structure du rapport**
Ce Rapport sur les rémunérations fournit la totalité des informations définies dans le chapitre 5 de la Directive concernant les informations relatives à la «Corporate Governance» de la SIX Swiss Exchange (Directive SIX) et du Code suisse de bonne pratique pour la gouvernance d'entreprise («Code suisse de bonne pratique»), tels qu'amendés avec effet au 1er juillet 2009 et au 15 octobre 2007, respectivement. Il contient également toutes les informations requises au titre des articles 663bbis et 663c, alinéa 3, du Code suisse des obligations et de la circulaire 2010/1 sur les normes minimales des systèmes de rémunération dans les établissements financiers, émise par l'Autorité de surveillance suisse des marchés financiers (circulaire de la FINMA sur les systèmes de rémunération) le 21 octobre 2009 et autres directives adoptées le 19 janvier 2011.

La structure du Rapport sur les rémunérations obéit aux exigences du Code suisse des obligations, de la Directive SIX, du Code suisse de bonne pratique et de la circulaire de la FINMA sur les systèmes de rémunération.

La première partie du rapport décrit les principes généraux et le cadre de la gouvernance et la seconde fournit des détails sur chacun des éléments de rémunération. Les membres du Conseil d'administration de Zurich Insurance Group SA sont indépendants et sans pouvoir exécutif, c'est pourquoi l'information est présentée avec les détails complets sur la rémunération du Conseil d'administration contenus dans une section. Les détails concernant le Comité exécutif du Groupe (GEC) figurent dans une section distincte, suivie d'une autre section consacrée aux informations requises par la circulaire de la FINMA sur les systèmes de rémunération pour l'ensemble des collaborateurs.

Toutes les informations requises par les articles 663bbis et 663c alinéa 3 du Code suisse des obligations sont également intégrées dans les «Notes to the financial statements» de Zurich Insurance Group SA, société holding.

Toutes les autres informations qui doivent être publiées conformément à la directive SIX figurent dans le Rapport sur la gouvernance d'entreprise qui précède ce Rapport sur les rémunérations.

## Gouvernance en matière de rémunération

**Structure de rémunération**
Le Conseil d'administration est responsable de la définition et de la mise en œuvre des principes et des règles de rémunération de Zurich (ensemble appelés les «règles de rémunération»). Pour l'aider dans cette mission, le Conseil d'administration a créé un comité des rémunérations. Le comité des rémunérations comprend quatre membres du Conseil d'administration, tous expérimentés dans le domaine des rémunérations. Le comité des rémunérations évalue chaque année la structure et les règles de rémunération et propose au Conseil d'administration les amendements qu'il juge nécessaires, le cas échéant.

# Rapport sur les rémunérations *suite*

En 2012, le Conseil d'administration a poursuivi sa surveillance au niveau de la structure de rémunération et sa mise en œuvre au niveau opérationnel. Le comité des rémunérations et le comité des risques ont tenu une réunion commune en septembre 2012. Dans l'ensemble, le Conseil d'administration persiste dans son opinion que la structure de rémunération est en accord avec la stratégie du Groupe et reflète les meilleures pratiques mondiales actuelles en termes de gouvernance, de planification et de transparence.

En 2012, un certain nombre d'initiatives ont été mises en œuvre (et continueront de l'être à l'avenir):

- Une réunion conjointe a été organisée entre le comité des rémunérations et le comité des risques, et ce afin de dresser un état des lieux des risques liés à la structure de rémunération et au cadre de gouvernance des rémunérations. Dans l'optique de cette réunion conjointe, la fonction Group Risk Management a évalué la structure de rémunération et a donné son appréciation sur la cohérence de la structure de rémunération avec une gestion des risques efficace. Elle a veillé à ce que la structure de rémunération n'encourage pas une prise de risque inconsidérée au regard du niveau de risque toléré par le Groupe.

- Une nouvelle réunion conjointe du comité des rémunérations et du comité de gouvernance et des nominations a eu lieu pour discuter des implications potentielles de «l'initiative Minder» contre les rémunérations abusives et le contre-projet indirect.

- La rémunération des fonctions de contrôle demeure structurée de façon à éviter les conflits d'intérêt, en s'assurant notamment que les primes octroyées à tous les collaborateurs des fonctions de contrôle soient calculées en fonction de la rentabilité du Groupe et non en fonction de la rentabilité de l'activité contrôlée par les fonctions en question.

- Les primes d'incitation à long terme ont été octroyées exclusivement sous forme d'actions liées à la performance. Un terme a été mis aux attributions d'options à compter de l'exercice 2011 et les options octroyées jusqu'à l'exercice 2010 inclus restent acquises en vertu des conditions générales de ces primes. Cela reflète les tendances du marché et le Conseil d'administration estime que les actions liées à la performance sont le meilleur moyen de récompenser les individus à hauteur de leur performance réelle.

- Dans le cadre du processus annuel visant à harmoniser la rémunération et la capacité de prise de risque du Groupe, la fonction Group Risk Management a consulté les autres fonctions de contrôle, de gouvernance et d'assurance et a rédigé à l'intention du CEO un bilan des facteurs de risque à prendre en compte au moment où la performance globale en vue du financement des primes d'incitation était en cours d'évaluation. Le Chief Risk Officer est à la disposition du comité des rémunérations et du Conseil d'administration pour évoquer ces résultats. Entre autres facteurs, le CEO tient compte de l'évaluation réalisée par Group Risk Management au moment de présenter ses propositions de financement de primes à court et à long termes au comité des rémunérations, qui formule à son tour sa recommandation au Conseil d'administration pour approbation finale.

- Pour ce qui est de la mise en œuvre opérationnelle de la structure de rémunération dans l'ensemble du Groupe, Group Audit a mené une évaluation minutieuse, intégrant un examen de la mise en œuvre des règles de rémunération de Zurich.

- Afin d'améliorer encore la transparence, des informations supplémentaires au sujet des directives sur la détention d'actions pour le Conseil d'administration et les membres du Comité exécutif du Groupe sont présentées page 63.

- Y figurent également des informations sur l'impact dilutif de l'émission d'actions afin de satisfaire aux obligations des plans de rémunération en actions du Groupe. Pour remplir ses engagements en la matière, Zurich émet des nouvelles actions sur le capital conditionnel autorisé par les actionnaires ou bien distribue des actions Zurich rachetées sur le marché.

  En 2012, la société a émis 914 301 actions (0,62% du capital sur la base de 147 385 822 actions enregistrées et ouvrant droit à dividende au 31 décembre 2011) pour satisfaire aux obligations d'actions qui découlent de l'acquisition des actions et de l'exercice des options d'achat d'actions pendant l'année (en 2011, 798 926 actions soit 0,54% du capital sur la base de 146 586 896 actions enregistrées et ouvrant droit à dividende au 31 décembre 2010).

  Au 31 décembre 2012, le nombre total d'actions non acquises s'élevait à 886 483, représentant les titres mis en circulation en 2010, 2011 et 2012. Si ces titres non acquis le devenaient à raison de 100% du seuil cible sur la période 2013–2015, cela entraînerait l'émission de 0,60% du capital-actions sur la base de 147 385 822 actions enregistrées et ouvrant droit à dividende au 31 décembre 2011.

Au 31 décembre 2012, le nombre total d'options d'achat d'actions acquises mais non levées s'élevait à 2 261 239. En outre, il y avait 243 345 options cibles non acquises dont l'acquisition est prévue en avril 2013. Les prix d'exercice de ces options varient de 198.10 CHF à 355.75 CHF. Dans le cas où toutes les options susmentionnées acquises et non acquises seraient levées dans le futur, le nombre d'actions requises représenterait 1,70% du capital-actions sur la base de 147 385 822 actions enregistrées et ouvrant droit à dividende au 31 décembre 2011. Dans le cas où seules les options actionnables au 31 décembre 2012 – date à laquelle le cours de l'action était de 243.30 CHF – seraient levées, le nombre d'actions requises serait de 255 683 soit 0,17% du capital-actions sur la base de 147 385 822 actions enregistrées et ouvrant droit à dividende au 31 décembre 2011.

- Lors de l'examen des indicateurs de performance, il a été décidé de normaliser l'impact des sinistres liés aux catastrophes pour mieux évaluer la performance de l'activité dans l'optique du Group STIP au sein du segment General Insurance. Farmers a également réalisé une modification de sorte qu'il soit maintenant tenu compte de la performance opérationnelle de Farmers Exchanges[1] dans l'évaluation du STIP. En ce qui concerne le LTIP, il a été décidé de conserver la matrice de performance sous-jacente qui englobe les réalisations en matière de rentabilité totale relative pour l'actionnaire (TSR[2]) et de rendement absolu des fonds propres ordinaires (ROE) mais le Conseil d'administration est désormais habilité à refléter les réalisations du Groupe en matière de rendement à la lumière de l'environnement économique au cours de la période visée de trois ans. Le niveau calculé peut être ajusté de +/–25% à la discrétion du Conseil d'administration en fonction de circonstances exceptionnelles sur le marché, par exemple au niveau des taux d'intérêt, des taux de change, etc.

Un examen des rémunérations effectué en 2012 a été l'occasion de vérifier tous les rôles de Key Risk Takers. Ces positions couvrent les trois segments d'activité General Insurance, Global Life et Farmers, ainsi que Group Operations et toutes les autres fonctions principales. En 2012, le processus et les critères d'identification des positions de Key Risk Takers ont été davantage clarifiés et documentés, et ce afin de faciliter également la réévaluation annuelle. Les critères sont basés sur des facteurs qui influencent de manière importante la prise de risque au sein du Groupe. Gouvernance globale, consommation de capital pour chaque type de risque telle que déterminée par le modèle interne, stratégie et réputation. Les critères sont ensuite appliqués à ceux qui prennent ou à ceux qui contrôlent les risques spécifiques au niveau du Groupe où les risques sont les plus tangibles. Group Risk Management en particulier, ainsi que d'autres fonctions de contrôle et d'assurance, fournissent des informations sur le risque et la compliance au sujet de chaque poste identifié comme Key Risk Taker dans le cadre de l'évaluation annuelle de la performance individuelle. Les modalités de rémunération pour les Key Risk Takers prévoient des plans d'incitation à court terme et à long terme, l'accent étant mis sur le long terme et donc sur la rémunération différée.

## Processus d'approbation des rémunérations

Conformément aux règles de rémunération, le comité des rémunérations est chargé de proposer chaque année au Conseil d'administration la rémunération à verser aux administrateurs, au CEO et aux autres membres du GEC. Pour les autres membres du GEC, ces recommandations sont basées sur les propositions faites par le CEO. Les propositions de rémunération doivent être approuvées par le Conseil d'administration.

Le président du Conseil d'administration n'assiste pas aux réunions du comité des rémunérations et du Conseil d'administration consacrées à la fixation de sa rémunération. Lors de la prise de décisions sur la rémunération du CEO, celui-ci n'est pas présent. Lorsque des décisions sont prises sur la rémunération des autres membres du GEC, ces membres ne sont pas non plus présents aux réunions. Le comité des rémunérations ne compte aucun membre siégeant également au(x) conseil(s) d'administration d'une ou plusieurs filiales du Groupe. Pour de plus amples détails sur les compétences du comité des rémunérations, veuillez vous reporter à la page 35 du Rapport sur la gouvernance d'entreprise.

[1] Pour une définition de «Farmers Exchanges», cf. page 19 du Rapport sur la gouvernance d'entreprise.
[2] La rentabilité totale pour l'actionnaire (TSR) correspond à la croissance théorique en valeur d'un actionnariat en supposant que les dividendes et les distributions de capital sont réinvestis dans l'achat d'unités d'actions supplémentaires au prix de clôture en vigueur à la date ex-dividende/de distribution du capital.

# Rapport sur les rémunérations *suite*

Le cadre d'approbation est décrit ci-dessous:

Dispositif d'approbation

| Sujet | Recommandation de | Autorisation finale de |
|---|---|---|
| Structure de rémunération globale | Comité des rémunérations et comité des risques, selon les propositions formulées par le CEO | Conseil d'administration |
| Règles de rémunération | Pour les administrateurs:<br>Comité des rémunérations<br>Pour tous les collaborateurs:<br>Comité des rémunérations, selon les propositions formulées par le CEO | Conseil d'administration |
| Rémunération à verser aux administrateurs (y compris le président et le vice-président) | Comité des rémunérations | Conseil d'administration |
| Rémunération du CEO | Comité des rémunérations | Conseil d'administration |
| Rémunération des membres du Comité exécutif du Groupe (hormis le CEO) | Comité des rémunérations, selon les propositions formulées par le CEO | Conseil d'administration |
| Réserves de financement du plan d'incitation à court terme (STIP) | Comité des rémunérations, selon les propositions formulées par le CEO en tenant compte de l'évaluation des risques par le Group Risk Management | Conseil d'administration |
| Niveaux d'acquisition dans le cadre du programme d'incitation à long terme (LTIP) | Comité des rémunérations, selon les propositions formulées par le CEO en tenant compte de l'évaluation des risques par le Group Risk Management | Conseil d'administration |

Par ailleurs, et conformément aux exigences de la circulaire de la FINMA sur les systèmes de rémunération, le Conseil d'administration approuve également le montant total de la rémunération variable pour l'année de performance à l'échelle du Groupe («enveloppe de rémunération variable totale») en tenant compte de la performance économique à long terme du Groupe. Pour de plus amples détails sur le calcul de l'enveloppe de rémunération variable totale, veuillez consulter les pages 79 à 80.

### Études comparatives et conseillers externes au Conseil d'administration

Des études comparatives sont menées régulièrement pour aider la prise de décisions sur la rémunération des membres du Conseil d'administration et du Comité exécutif du Groupe. Pour évaluer les pratiques du marché et les niveaux de rémunération du marché, les structures et les pratiques de rémunération des principaux acteurs du secteur de l'assurance sont analysées, avec comme référence les entreprises figurant dans l'indice Dow Jones Titan Insurance. Cet indice comprend les plus grandes compagnies d'assurances au monde, basées notamment en Europe et aux États-Unis. Cette analyse est dûment étayée par des études comparatives complémentaires, par exemple sur les pratiques en vigueur au sein de grands groupes du Swiss Market Index (SMI) en Suisse ou de groupes de taille comparable à l'étranger. L'échantillon d'entreprises concurrentes englobe des entreprises telles qu'AXA, Allianz, AIG, Munich Re, Aviva, ING Group, Prudential plc, Met Life, Aegon, Ace, Travelers Cos. Inc., Manulife Financial Corp., Prudential Financial Inc. et Swiss Re. Le comité des rémunérations examine régulièrement cet échantillon d'entreprises.

Les résultats des études comparatives sont pris en compte dans la détermination des honoraires pour les membres du Conseil d'administration et des structures et niveaux de rémunération pour le CEO et les autres membres du GEC. Dans l'analyse des résultats, les pratiques du marché dans les différents pays et les comparaisons internes entre les postes sont prises en compte. Le positionnement général des régimes de rémunération se situe à des niveaux médians.

Lors de la révision régulière des structures et des pratiques de rémunération, le comité des rémunérations et le Conseil d'administration reçoivent des conseils indépendants du cabinet de conseil Meridian Compensation Partners LLC (Meridian), spécialisé dans la rémunération des cadres supérieurs, ainsi que du cabinet Aon Hewitt, une filiale d'Aon Corporation (Aon Hewitt). Le comité des rémunérations examine les mandats et les honoraires et évalue la performance régulière ou continue. Les deux cabinets, Meridian et Aon Hewitt, assurent des prestations de conseil auprès du Conseil d'administration, le consultant en chef étant un salarié de Meridian. Meridian ne fournit pas d'autres prestations de services au Groupe. Même si certains cabinets au sein d'Aon Hewitt – un grand groupe de ressources humaines et de courtage international – travaillent à l'occasion pour le Groupe, le comité des rémunérations considère que ces multiples prestations de services ne remettent pas en cause l'indépendance et l'intégrité des conseils prodigués par Aon Hewitt.

Dans ses activités, la Direction générale est épaulée par divers cabinets spécialisés dans le domaine de la rémunération des cadres supérieurs au niveau international.

**Directives sur la détention d'actions par les administrateurs et les membres du Comité exécutif du Groupe**
Pour faire converger les intérêts du Conseil d'administration et du GEC avec ceux des actionnaires, les administrateurs et les membres du GEC constituent leur participation au capital de la société et sont tenus d'atteindre un certain seuil de participation. Les directives sur la détention d'actions par les membres du Conseil d'administration ont été fixées à une fois les honoraires annuels de base. Pour les membres du GEC, les directives sur la détention d'actions en tenant compte des distributions acquises ont été fixées à 5 fois le salaire de base pour le CEO et à 2,5 fois le salaire de base pour les autres membres du GEC. Pour satisfaire à cette exigence, les administrateurs perçoivent une partie de leurs honoraires sous forme d'actions restreintes à la vente pendant trois ans et achètent des actions sur le marché. Dans le même but, les membres du GEC participent aux plans d'incitation à long terme et achètent des actions sur le marché. Les administrateurs, le CEO et les autres membres du GEC disposent d'un délai de cinq ans pour atteindre leur quota de participation au capital et le comité des rémunérations surveille chaque année le respect de ces directives.

**Implication des actionnaires**
Comme l'an passé, Zurich permettra aux actionnaires d'exprimer leur opinion sur la structure de rémunération via un vote consultatif lors de l'Assemblée générale ordinaire, qui aura lieu le 4 avril 2013. La décision finale en matière de rémunération relevant des compétences du Conseil d'administration, un tel vote ne saurait, de par sa nature, avoir un caractère contraignant.

## La philosophie de rémunération

**Membres du Conseil d'administration**
Sachant que Zurich est une compagnie d'assurance mondiale, le niveau des honoraires des membres du Conseil d'administration a été déterminé de manière à garantir que le Groupe puisse attirer et retenir des personnes hautement qualifiées.

Le montant des honoraires est fixé pour chaque membre du Conseil d'administration de Zurich Insurance Group SA en fonction de son rôle dans le Conseil et de la structure d'honoraires décrite en page 70. Les honoraires de base sont versés en liquide et en actions; environ un tiers prend la forme d'actions de Zurich Insurance Group SA bloquées pendant trois ans.

Les honoraires versés aux administrateurs (y compris la partie versée sous forme d'actions bloquées) ne sont pas assujettis à des conditions spécifiques de performance.

**Comité exécutif du Groupe et tous les autres collaborateurs**
Pour les membres du GEC, y compris le CEO, et tous les autres collaborateurs du Groupe, un certain nombre d'éléments clés ont été mis en place pour garantir un programme de rémunération équilibré et géré efficacement. Ces éléments incluent une philosophie de rémunération valable pour l'ensemble du Groupe, de solides plans d'incitation à court terme et à long terme, une gouvernance efficace et des liens étroits avec la planification des activités et les politiques de risque du Groupe.

Zurich s'engage à fournir des opportunités de rémunération totale concurrentielles qui attirent, retiennent, motivent les collaborateurs et récompensent leurs performances exceptionnelles. La philosophie de rémunération fait partie intégrante de l'offre globale proposée aux collaborateurs. Zurich a clairement défini le processus de gestion de la performance globale qui soutient la réalisation de la stratégie et des plans d'exploitation globaux et fait le lien entre la rémunération individuelle et la performance de la société et du collaborateur. Cela s'effectue par l'entremise du cadre de rémunération supervisé par le GEC, le comité des rémunérations et le Conseil d'administration lui-même.

**Fondements de la philosophie de rémunération**
Les fondements de la philosophie de rémunération tels qu'énoncés dans les règles de rémunération sont les suivants:

- La structure de rémunération du Groupe est simple, transparente et sa mise en œuvre est réaliste. Elle est orientée à long terme pour les personnes occupant des postes considérés de Key Risk Taker pour le Groupe.
- La structure et le niveau de la rémunération totale sont conformes à la politique du Groupe en matière de risque et à sa capacité de prise de risque.
- Le Groupe promeut une culture de l'excellence en différenciant la rémunération totale en fonction de la performance relative des activités et des individus.

# Rapport sur les rémunérations *suite*

- Le Groupe définit clairement la performance escomptée au moyen d'un système structuré de gestion de la performance, utilisé comme critère pour les décisions relatives à la rémunération.
- Le Groupe associe les éléments de rémunération variables à des facteurs clés de performance, tels que la performance du Groupe, de ses segments d'activité, de ses divisions et unités d'affaires et de ses fonctions, ainsi que les résultats individuels.
- Les plans d'incitation à court terme et à long terme utilisés dans le cadre de la rémunération variable sont liés à des indicateurs de performance absolue et relative adéquats et l'enveloppe globale consacrée à la rémunération variable est déterminée en fonction de la performance économique du Groupe à long terme.
- La structure des plans d'incitation à long terme associe la rémunération à l'évolution future de la performance et du risque en prévoyant des clauses de rémunération différée.
- Le Groupe offre à ses collaborateurs une série d'avantages en fonction des pratiques locales en vigueur, en tenant compte de la capacité de risque du Groupe en matière de financement des retraites et de placements.

**Rémunération totale**

La rémunération totale de chaque collaborateur est influencée par plusieurs facteurs tels que l'envergure et la complexité du poste, la performance de la société et sa capacité financière, la performance individuelle, les comparaisons internes et les exigences légales. Comme décrit précédemment aux pages 57 et 62, les opportunités cibles sont comparées aux niveaux médians dans des marchés clairement définis. La répartition de la rémunération entre salaire de base et part variable est aussi alignée sur les pratiques locales du marché et les structures internes. Zurich fait preuve de transparence quant au mode de définition des critères de récompense et aux processus décisionnels. La rémunération totale comprend les éléments suivants:

## Éléments de la rémunération totale

| Elément | | Type | Description |
|---|---|---|---|
| Salaire de base | | Part fixe en espèces | Rémunération fixe, déterminée par l'étendue et la complexité du poste.<br><br>Se situe généralement dans une fourchette de 80% à 120% du salaire médian correspondant sur le marché |
| Rémunération variable | Primes d'incitation à court terme (STIP – 1 an) | Versements en espèces liés à la performance | Pour les cadres, les cadres dirigeants et un groupe plus large de collaborateurs: versement annuel.<br><br>Performance mesurée à la lumière des résultats de la société et de l'atteinte des objectifs stratégiques.<br><br>Primes allouées en fonction de la performance de la société et de celle du collaborateur |
| | Primes d'incitation à long terme (LTIP – 3 ans) | Actions liées à la performance | Pour un groupe défini de cadres et de dirigeants.<br><br>Les primes cibles sont octroyées chaque année et chaque prime annuelle est répartie en 3 tranches équivalentes.<br><br>La 1ère tranche est évaluée en vue d'une acquisition dans l'année qui suit l'année de l'octroi de la prime; la 2e tranche pour l'année suivante et la 3e tranche pour l'année qui suit.<br><br>L'acquisition est déterminée en fonction des performances relatives du Groupe, en termes de rendement total aux actionnaires du Groupe (TSR) et du rendement sur fonds propres ordinaires (ROE), au cours des trois années civiles précédant la date d'acquisition.<br><br>La moitié des primes en actions acquises sont remises sous forme d'actions restreintes assujetties à un délai de vente de trois ans |
| Avantages du personnel | | Avantages fixes | Avantages consentis au personnel selon les pratiques en vigueur au sein du marché local.<br><br>Régimes de retraite à risque réduit conformément aux directives du Groupe.<br><br>Avantages orientés vers la médiane |

### Salaire de base

Le salaire de base est la partie fixe pour la fonction occupée déterminé par l'étendue et la complexité de la fonction et il est révisé chaque année. Les grilles générales du salaire de base sont positionnées afin de gérer les salaires au niveau des médianes pratiquées sur le marché concerné. Au niveau individuel, le salaire de base est généralement versé dans une fourchette de 80% à 120% du salaire médian du marché concerné. Les facteurs clés dans la détermination du salaire sont l'expérience et la performance globales du collaborateur.

### Rémunération variable

Des plans d'incitation sont conçus pour fournir une échelle d'opportunités de récompenses liées aux niveaux de performance. La performance d'exploitation et individuelle peut se traduire par des niveaux de rémunération supérieurs à la cible en cas de performance notable et par des niveaux inférieurs à la cible en cas de performance non conforme aux attentes. Les opportunités de rémunération variable sont instituées sur les marchés où il est usuel de motiver les collaborateurs à atteindre des objectifs clés à court terme et à long terme apportant une valeur accrue aux actionnaires. Les opportunités de rémunération variable peuvent inclure des primes d'incitation à court et à long termes:

# Rapport sur les rémunérations *suite*

**Les primes d'incitation à court terme (1 an)** dépendent de la performance sur le modèle suivant:

- Les primes d'incitation à court terme sont versées en espèces.
- Chaque participant se voit attribuer une prime cible pour l'année de performance.
- Un certain nombre de caisses distinctes de primes d'incitation à court terme sont créées pour couvrir les différents secteurs du Groupe: Direction générale, segments opérationnels, opérations, domaines fonctionnels et siège social (Corporate Center). La structure de la caisse est revue chaque année. Chaque participant est rattaché à l'une des caisses de financement des plans d'incitation à court terme (STIP).
- Pour chaque caisse STIP, l'enveloppe cible est égale à la somme des niveaux de primes cibles pour chaque individu rattaché à la caisse.
- Le financement réel de la caisse STIP – un pourcentage de la caisse cible – est calculé à la fin de l'année de performance. Le Conseil d'administration a approuvé la grille de performance STIP, qui lie la performance commerciale à la taille potentielle de la caisse de financement réelle. En tenant compte de la performance commerciale appropriée et des paramètres de risque, le CEO formule des recommandations sur la taille des diverses caisses de financement STIP à l'intention du comité des rémunérations, qui en débat et soumet ces propositions à l'approbation du Conseil d'administration.
- La performance d'exploitation correspondante est évaluée en fonction du budget prévisionnel approuvé par le Conseil d'administration au mois de décembre de l'année précédant l'année de performance. Parmi les paramètres financiers permettant de financer les caisses figurent généralement le bénéfice net du Groupe pour la Direction générale et le bénéfice d'exploitation correspondant pour les segments d'activité: pour Farmers, la performance opérationnelle des Farmers Exchanges est désormais prise en compte. En fonction des performances avérées, les caisses de financement Group STIP peuvent varier de 0 à 175% des fonds cibles. Si la performance opérationnelle est conforme à l'objectif, le financement Group STIP potentiellement disponible en pourcentage des primes cibles avoisine 100%. Toutefois, si la performance opérationnelle est inférieure à l'objectif, le financement Group STIP e potentiellement disponible en pourcentage des primes cibles est normalement inférieur à 100% et peut même être ramené à 0%. La performance financière du secteur concerné, ainsi qu'une évaluation des paramètres de risque par le Chief Risk Officer, sont prises en compte au moment d'évaluer les résultats d'exploitation.
- L'allocation de la caisse de financement STIP à chaque participant dépend alors de la taille de la caisse de financement disponible, des résultats de l'unité à laquelle le salarié est rattaché et de la performance avérée de chaque participant au cours de l'année. Toute violation des règles ou dispositions internes ou externes par le salarié est prise en compte dans sa notation de performance individuelle. La performance individuelle avérée est évaluée par le biais du processus et du système de gestion de la performance mis en place par le Groupe. Ce processus aboutit à l'attribution d'une note individuelle sur une échelle de 1 à 5 (la note «5» étant la plus élevée) et prévoit une directive de distribution cible pour chacune des notations. Cela garantit une différenciation claire des notes et des versements STIP en fonction de la performance individuelle.
- En fonction de la taille de la caisse de financement Group STIP et de la note de performance individuelle, les primes d'incitation à court terme peuvent varier de 0 à 200% du niveau de prime cible individuel.
- De cette façon, les primes d'incitation à court terme sont différenciées en fonction de la performance avérée de la société et de celle du collaborateur. Le financement dépend intégralement de la performance opérationnelle et dès lors que le financement est disponible, le versement dépend alors de la performance individuelle.

Les primes d'incitation à court terme sont octroyées principalement via le Group STIP. En outre, il existe des plans locaux au niveau des pays. Le plan du Groupe est utilisé dans l'ensemble de l'organisation et, dans de nombreux pays, il couvre tous les collaborateurs du pays respectif dont la participation a été retenue. Dans d'autres pays, seuls les collaborateurs les plus hauts gradés participent au plan du Groupe. Les plans locaux du pays, suivant à peu près les mêmes principes que le Group STIP, peuvent servir pour les autres collaborateurs.

Ces deux dernières années, plus de 10 000 collaborateurs sont passés de plans d'incitation locaux au profit du Group STIP. En 2013 et en 2014, il est prévu d'analyser continuellement la possibilité de transférer vers le Group STIP des salariés qui participent aux plans d'incitation locaux, et ce en tenant compte de l'environnement juridique et de l'environnement du marché.

**Les primes d'incitation à long terme (3 ans)** récompensent l'atteinte des objectifs financiers à long terme du Groupe et sont destinées à un groupe déterminé de cadres supérieurs et de dirigeants dont les fonctions spécifiques se concentrent sur les facteurs générateurs de valeur à long terme en faveur des actionnaires. Ce groupe contient les individus affichant le niveau de rémunération totale le plus élevé, ainsi que ceux considérés commes des preneurs de risques. Conformément au profil de risque du Groupe et à sa stratégie, les primes d'incitation à long terme sont assorties d'une clause d'étalement dans le temps pour tenir compte des risques importants et de leur horizon temporel. Cette rémunération différée est structurée de manière à sensibiliser les participants au risque et à les encourager à conduire leur activité de façon durable.

Le paiement différé des primes d'incitation à long terme se concrétise par:

- L'acquisition au prorata des primes d'incitation à long terme, en versements par tiers échelonnés sur les trois années qui suivent l'année d'octroi de la prime et

- En outre, la moitié des actions acquises sont bloquées à la vente pour une période de trois ans à compter de leur date d'acquisition.

Les plans d'incitation à long terme mis en place par le Groupe peuvent inclure i) des actions liées à la performance; ii) des options liées à la performance, iii) des actions restreintes ou une combinaison de tous ces éléments. Les principales caractéristiques des plans d'incitation à long terme du Groupe sont les suivantes:

- Chaque participant se voit attribuer une prime cible pour l'année d'octroi.

- L'acquisition est basée sur un modèle annuel et évaluable dans lequel les primes cibles sont divisées en trois tranches équivalentes, chacune d'entre elles étant calculée en vue d'une acquisition dans les trois ans qui suivent la date d'octroi. Le tableau suivant illustre ce mécanisme:

Évolution des attributions réalisées en 2012

| | Année d'acquisition et année de levée des restrictions à la vente sur 50% de toute prime en actions acquise | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| 1ère tranche de la prime de 2012 | Évaluation donnant droit à l'acquisition | | | Levée des restrictions à la vente | | |
| 2ème tranche de la prime de 2012 | | Évaluation donnant droit à l'acquisition | | | Levée des restrictions à la vente | |
| 3ème tranche de la prime de 2012 | | | Évaluation donnant droit à l'acquisition | | | Levée des restrictions à la vente |

Le tableau suivant illustre comment les tranches relatives aux diverses primes annuelles sont acquises tout au long des années calendaires consécutives. En conséquence, il y a toujours trois tranches de primes relatives à des années différentes qui sont évaluées chaque année civile à des fins d'acquisition.

| Année d'acquisition pour chaque tranche | | |
|---|---|---|
| 2013 | 2014 | 2015 |
| 1ère tranche de la prime de 2012 | 1ère tranche de la prime de 2013 | 1ère tranche de la prime de 2014 |
| 2ème tranche de la prime de 2011 | 2ème tranche de la prime de 2012 | 2ème tranche de la prime de 2013 |
| 3ème tranche de la prime de 2010 | 3ème tranche de la prime de 2011 | 3ème tranche de la prime de 2012 |

# Rapport sur les rémunérations *suite*

- Les rétributions liées à la performance ne sont acquises que si certaines conditions de performance du Groupe sont réunies en termes de rendement absolu des fonds propres ordinaires (ROE) et de rentabilité totale pour l’actionnaire (TSR), par rapport à un groupe de compagnies d’assurances internationales concurrentes figurant dans l’indice Dow Jones Titan Insurance. La performance est mesurée sur les trois années civiles précédant la date d’acquisition et le pourcentage d’acquisition, elle est calculée en fonction des performances réelles en termes de ROE et de TSR et peut varier de 0% à 175% des primes cibles. Si les seuils de performance minimale sont atteints, les conditions de performance du Groupe sont alors prises en compte dans les mêmes proportions. Dans le cas contraire, les primes cibles ne seront pas acquises. Le pourcentage d’acquisition est proposé par le CEO au comité des rémunérations, qui formule une recommandation auprès du Conseil d’administration en vue d’une décision finale. La matrice d’acquisition est la suivante:

Matrice d’acquisition du programme d’incitation à long terme

| en % | | **Niveau d’acquisition des octrois d’actions et d’options selon les cibles** | | | |
|---|---|---|---|---|---|
| TSR de Zurich sur trois ans, par rapport aux 28 entreprises principales de l’indice Dow Jones Global Insurance Sector Titan | Quartile supérieur (Position: 1 à 7) | 100% | 125% | 150% | 175% |
| | Second quartile (Position: 8 à 14) | 75% | 100% | 125% | 150% |
| | | 9% | 12% | 15% | 18% |
| | | Moyenne annuelle sur trois ans du rendement des fonds propres ordinaires du Groupe (ROE) | | | |

Lorsque le ROE avéré se situe entre les valeurs inscrites au tableau, le pourcentage d’acquisition est fixé par interpolation des chiffres figurant dans la matrice ci-dessus. Par exemple, avec un TSR relatif dans le seconde quartile et un ROE moyen de 14% sur la période de trois ans, le pourcentage d’acquisition serait de 117% de la prime cible.

La matrice de performance sous-jacente a été examinée par le Conseil d’administration, qui a décidé de ne pas la modifier. Le Conseil d’administration peut exercer son pouvoir discrétionnaire afin de tenir compte de l’environnement actuel dans son évaluation des niveaux d’acquisition globaux. Le niveau calculé peut être ajusté de +/–25% en fonction de circonstances exceptionnelles sur le marché, par exemple au niveau des taux d’intérêt, des taux de change, etc. Pour la période de performance de 2010 à 2012, le Conseil d’administration a décidé de ne pas exercer son pouvoir discrétionnaire.

Seul le CEO est habilité à modifier les primes individuelles pour tenir compte des circonstances particulières, à l’exception des modifications concernant les membres du GEC qui sont exclusivement du ressort du comité des rémunérations et du Conseil d’administration. Un ajustement de +/–25% par rapport au niveau d’acquisition normal peut être appliqué avant la distribution. Toutefois, si la performance le justifie dans certaines circonstances exceptionnelles ou inhabituelles, des exceptions au principe des +/–25% sont envisageables. A cet égard, la société se réserve le droit d’ajuster, voire même de descendre à zéro le pourcentage d’acquisition d’une personne pour tenir compte de circonstances particulières (p. ex. violation d’un règlement interne ou externe) pendant la période antérieure à l’acquisition, mais ce type d’ajustement est exclusivement réservé au comité des rémunérations et au Conseil d’administration.

Les plans de rémunération variable du Groupe sont révisés chaque année, à la fois en termes de contenu et de participants. Les plans peuvent être résiliés, modifiés, changés ou révisés.

### Avantages du personnel

Le Groupe offre un éventail d’avantages au personnel sur le modèle des pratiques en vigueur dans les marchés locaux. Les collaborateurs sont, en principe, tenus de participer au coût de ces prestations et l’offre globale de prestations repose sur la médiane du marché concerné.

## Rémunération et actionnariat des membres du Conseil d'administration et du Comité exécutif du Groupe

Au 31 décembre 2012, aucun des administrateurs de Zurich Insurance Group SA n'exerçait de fonction exécutive et tous étaient indépendants de la Direction générale. La rémunération des membres du Conseil d'administration et celle des membres du GEC, de même que leur participation au capital, sont présentées séparément.

## Membres du Conseil d'administration

### Honoraires des administrateurs

Tous les administrateurs perçoivent des honoraires, dont une partie est versée en espèces et une autre partie sous forme d'une attribution d'actions de Zurich Insurance Group SA dont la vente est bloquée pendant trois ans, au titre de leur appartenance aux Conseils d'administration de Zurich Insurance Group SA et de Zurich Compagnie d'Assurances SA. Les actions sont attribuées à titre d'honoraires généraux qui ne sont pas liés à l'atteinte d'objectifs de performance définis.

La structure d'honoraires établie en 2011 n'a pas changé en 2012 et le Conseil d'administration a décidé de la maintenir en 2013.

À l'exception du président et du vice-président, les administrateurs sont rétribués sur une base annuelle d'honoraires de 240 000 CHF en 2012 (240 000 CHF en 2011). Un tiers de ces honoraires annuels de base, soit 80 000 CHF en 2012 (80 000 CHF en 2011), est attribué sous forme d'actions de Zurich Insurance Group SA dont la vente est restreinte. Le montant des honoraires est calculé au prorata pour les membres qui quittent ou intègrent le Conseil d'administration en cours d'année. Les membres du Conseil d'administration perçoivent des honoraires supplémentaires en espèces de 50 000 CHF en 2012 (50 000 CHF en 2011) pour tous les comités auxquels ils participent, quel qu'en soit le nombre. En outre, le président de chaque comité perçoit des honoraires annuels de 30 000 CHF en 2012 (30 000 CHF en 2011) et le président du comité d'audit perçoit 10 000 CHF supplémentaires en 2012 (10 000 CHF en 2011). Les comités dans lesquels les administrateurs officient sont présentés dans le Rapport sur la gouvernance d'entreprise à la page 26.

Lorsqu'un administrateur est également membre du Conseil d'administration d'une ou de plusieurs filiales de Zurich Insurance Group SA, il a droit à des honoraires supplémentaires de 50 000 CHF en 2012 (50 000 CHF en 2011) par année, auxquels s'ajoutent 10 000 CHF en 2012 (10 000 CHF en 2011) par an s'il préside également le comité d'audit du Conseil d'administration en question.

En 2012, le vice-président a perçu 375 000 CHF (375 000 CHF en 2011) au titre de ses honoraires annuels de base, dont un montant de 125 000 CHF (125 000 CHF en 2011) est alloué sous forme d'actions de Zurich Insurance Group SA dont la vente est restreinte. En 2012, le président du Conseil d'administration de Zurich Insurance Group SA a perçu 1 000 000 de CHF (1 000 000 de CHF en 2011) au titre de ses honoraires annuels de base, dont un tiers, soit 333 500 CHF (333 500 CHF en 2011), est alloué sous forme d'actions de Zurich Insurance Group SA dont la vente est restreinte. Ni le président ni le vice-président ne perçoivent d'honoraires supplémentaires pour leurs travaux au sein des comités.

Sur la base de cette structure, l'ensemble des honoraires versés aux administrateurs de Zurich Insurance Group SA et de Zurich Compagnie d'Assurances SA pour l'exercice arrêté au 31 décembre 2012 se sont élevés à 4 244 246 CHF, dont 3 166 298 CHF en espèces et 1 077 948 CHF sous forme d'actions dont la vente est restreinte pendant trois ans (valeur estimée à la date d'octroi). Le cours de l'action à la date d'octroi était de 207.10 CHF. Le montant correspondant en 2011 était de 4 257 500 CHF, dont 3 079 000 CHF en espèces et 1 178 500 CHF sous forme d'actions dont la vente est bloquée pendant trois ans (valeur à la date d'octroi). Le cours de l'action à la date de l'attribution en 2011 était de 218.90 CHF. Les honoraires des membres du Conseil d'administration n'ouvrent pas droits à retraite.

Les tableaux suivants indiquent les honoraires versés aux membres du Conseil d'administration en 2012 et en 2011:

# Rapport sur les rémunérations *suite*

## Honoraires des administrateurs en 2012

| en CHF | 2012[1] | | | | | | |
|---|---|---|---|---|---|---|---|
| | Honoraires de base | Honoraires de comité[2] | Honoraires de présidence[3] | Autres honoraires[7] | Total des honoraires | dont montant versé en espèces[5] | dont partie allouée en actions[4, 5] |
| J. Ackermann, président[6,9] | 846 198 | – | – | – | 846 198 | 563 399 | 282 799 |
| M. Gentz, président[6,9] | 243 170 | – | – | – | 243 170 | 243 170 | na |
| T. de Swaan, vice-président[6,9] | 342 172 | 12 159 | 7 295 | 85 000 | 446 626 | 332 569 | 114 057 |
| S. Bies, membre | 240 000 | 50 000 | – | 50 000 | 340 000 | 260 000 | 80 000 |
| A. Carnwath, membre[9] | 181 202 | 37 705 | – | – | 218 907 | 158 361 | 60 546 |
| V. L.L. Chu, membre | 240 000 | 50 000 | – | – | 290 000 | 210 000 | 80 000 |
| R. del Pino, membre[9] | 181 202 | 37 705 | – | – | 218 907 | 158 361 | 60 546 |
| Th. Escher, membre | 240 000 | 50 000 | 22 623 | – | 312 623 | 232 623 | 80 000 |
| F. Kindle, membre | 240 000 | 50 000 | – | – | 290 000 | 210 000 | 80 000 |
| A. Meyer, membre | 240 000 | 50 000 | – | – | 290 000 | 210 000 | 80 000 |
| D. Nicolaisen, membre | 240 000 | 50 000 | 40 000 | 50 000 | 380 000 | 300 000 | 80 000 |
| V. L. Sankey, membre[9] | 58 361 | 12 159 | 7 295 | – | 77 815 | 77 815 | na |
| R. Watter, membre | 240 000 | 50 000 | – | – | 290 000 | 210 000 | 80 000 |
| **Total en CHF[8]** | **3 532 305** | **449 728** | **77 213** | **185 000** | **4 244 246** | **3 166 298** | **1 077 948** |

## Honoraires des administrateurs en 2011

| en CHF | 2011[1] | | | | | | |
|---|---|---|---|---|---|---|---|
| | Honoraires de base | Honoraires de comité[2] | Honoraires de présidence[3] | Autres honoraires[7] | Total des honoraires | dont montant versé en espèces[5] | dont partie allouée en actions[4, 10] |
| M. Gentz, président[6] | 1 000 000 | – | – | – | 1 000 000 | 666 500 | 333 500 |
| J. Ackermann, vice-président[6] | 375 000 | – | – | – | 375 000 | 250 000 | 125 000 |
| S. Bies, membre | 240 000 | 50 000 | – | 50 000 | 340 000 | 260 000 | 80 000 |
| V. L.L. Chu, membre | 240 000 | 50 000 | – | – | 290 000 | 210 000 | 80 000 |
| Th. Escher, membre | 240 000 | 50 000 | – | – | 290 000 | 210 000 | 80 000 |
| F. Kindle, membre | 240 000 | 50 000 | – | – | 290 000 | 210 000 | 80 000 |
| A. Meyer, membre | 240 000 | 50 000 | – | – | 290 000 | 210 000 | 80 000 |
| D. Nicolaisen, membre | 240 000 | 50 000 | 40 000 | 50 000 | 380 000 | 300 000 | 80 000 |
| V. L. Sankey, membre | 240 000 | 50 000 | 30 000 | – | 320 000 | 240 000 | 80 000 |
| T. de Swaan, membre | 240 000 | 50 000 | 30 000 | 72 500 | 392 500 | 312 500 | 80 000 |
| R. Watter, membre | 240 000 | 50 000 | – | – | 290 000 | 210 000 | 80 000 |
| **Total en CHF[8]** | **3 535 000** | **450 000** | **100 000** | **172 500** | **4 257 500** | **3 079 000** | **1 178 500** |

1 Les rémunérations présentées dans les tableaux sont des valeurs brutes calculées selon le principe de séparation des exercices. Elles ne comprennent aucune dépense qui aurait été engagée dans le cadre des activités des administrateurs.
2 Les membres des comités perçoivent des honoraires en espèces de 50 000 CHF (50 000 CHF en 2011) pour tous les comités où ils siègent, indépendamment de leur nombre. Les comités dans lesquels les administrateurs officient sont présentés dans le Rapport sur la gouvernance d'entreprise à la page 26.
3 Les présidents des comités perçoivent des honoraires annuels de 30 000 CHF (30 000 CHF en 2011) et le président du comité d'audit perçoit un montant supplémentaire de 10 000 CHF (10 000 CHF en 2011). Les comités auxquels les administrateurs participent et leur président respectif sont indiqués dans le Rapport sur la gouvernance d'entreprise à la page 26.
4 Les actions attribuées aux administrateurs sont restreintes à la vente pendant trois ans.
5 Le 16 juin 2012, M. Ackermann a reçu 1 365 actions, M. de Swaan 550 actions et les autres membres du Conseil d'administration 386 actions pour une année pleine d'exercice du mandat d'administrateur. Le cours de l'action (207.10 CHF) au 16 juin 2012 a été utilisé pour calculer le nombre d'actions à partir de la portion fixe des honoraires attribués en actions aux membres respectifs. Lorsque la valeur des actions attribuées n'était pas équivalente à la valeur de la portion des honoraires à attribuer en actions, la différence était payée en espèces.
6 Ni le président ni le vice-président ne perçoivent d'honoraires supplémentaires pour leurs travaux au sein des comités.
7 En sus des honoraires perçus en tant qu'administrateurs de la Zurich Compagnie d'Assurances SA, Susan Bies, Don Nicolaisen et Tom de Swaan ont perçu des honoraires en vertu de leur appartenance aux Conseils d'administration des sociétés suivantes de Zurich Insurance Group:
– en 2012 et 2011, Susan Bies et Don Nicolaisen ont perçu chacun des honoraires de 50 000 CHF en vertu de leur appartenance au Conseil d'administration de Zurich Holding Company of America (ZHCA).;
– en 2012, Tom de Swaan a perçu 75 000 CHF au titre d'administrateur de Zurich Insurance plc et de Zurich Life Assurance plc. Des honoraires annuels complémentaires d'un montant de 10 000 CHF lui ont été versés au titre de président des comités d'audit de ces deux sociétés. En 2011, le travail de M. de Swaan au sein de ces deux Conseils d'administration a été rémunéré à hauteur de 72 500 CHF.
8 Conformément à la législation en vigueur, Zurich a payé la part employeur des cotisations aux systèmes de sécurité sociale, soit 160 340 CHF en 2012. Les mêmes cotisations avaient totalisé 142 832 CHF en 2011. Les cotisations personnelles des administrateurs aux systèmes de sécurité sociale sont comprises dans les montants indiqués dans le tableau ci-dessus.
9 A l'occasion de l'Assemblée générale ordinaire du 29 mars 2012, MM. Gentz et Sankey ont quitté le Conseil d'administration; Alison Carnwath et Rafael del Pino ont été élus au Conseil d'administration. M. Ackermann a été nommé président et M. de Swaan vice-président du Conseil d'administration.
10 Le 30 juin 2011, M. Gentz avait reçu 1 523 actions, M. Ackermann 571 actions et les autres membres du Conseil d'administration 365 actions pour une année pleine d'exercice du mandat d'administrateur. Le cours de l'action (218.90 CHF) au 15 juin 2011 a été utilisé pour calculer le nombre d'actions à partir de la portion fixe des honoraires attribués en actions aux membres respectifs. Lorsque la valeur des actions attribuées n'était pas équivalente à la valeur de la portion des honoraires à attribuer en actions, la différence était payée en espèces.

### Conditions financières de départ pour les membres du Conseil d'administration ayant quitté leurs fonctions

MM. Gentz et Sankey, dont les mandats arrivaient à expiration lors de l'Assemblée générale ordinaire du 29 mars 2012, n'étaient pas candidats à leur réélection. Leur départ n'a donné lieu à aucun versement de prime de départ (p. ex. «golden parachute») ni à aucun autre avantage tel que le renoncement aux périodes de blocage des actions, un raccourcissement de la période d'acquisition ou des cotisations supplémentaires aux régimes de retraite complémentaire.

### Versements spéciaux pour les nouveaux membres du Conseil d'administration

Lors de l'Assemblée générale ordinaire du 29 mars 2012, Mlle Carnwath et M. del Pino ont été élus en tant que nouveaux membres du Conseil d'administration. Leur arrivée n'a donné lieu à aucun versement spécial (p. ex. «golden handshake») ni à aucun autre avantage.

### Rémunération des anciens administrateurs

Aucun avantage (ou abandon de créance) n'a été accordé à d'anciens administrateurs en 2012, pas plus qu'en 2011.

### Plans d'attribution d'actions aux administrateurs

Les membres du Conseil d'administration de Zurich Insurance Group SA et de Zurich Compagnie d'Assurances SA ne participent à aucun plan d'incitation sous forme d'attribution d'actions à l'intention de la Direction générale. Toutefois, une partie des honoraires des administrateurs de Zurich Insurance Group SA est attribuée sous forme d'actions dont la vente est bloquée pendant trois ans. Comme mentionné ci-dessus, les actions sont attribuées aux administrateurs à titre d'honoraires généraux et elles ne sont pas liées à l'atteinte d'objectifs de performance définis.

### Participations des administrateurs au capital

Les participations au capital de Zurich Insurance Group SA détenues par les membres du Conseil d'administration investis d'un mandat à la fin de l'année sont indiquées dans le tableau suivant. Toutes les participations présentées sont détenues en compte propre et englobent les actions restreintes à la vente qui sont attribuées aux administrateurs en guise d'honoraires et les actions détenues par des parties liées aux membres du Conseil d'administration.

Participations des administrateurs

| Nombre d'actions de la Zurich Insurance Group SA[1] au 31 décembre | Détention d'actions | |
|---|---|---|
| | **2012** | 2011 |
| J. Ackermann, président | 23 271 | 806 |
| M. Gentz, président | na | 6 868 |
| T. de Swaan, vice-président | 2 079 | 1 529 |
| S. Bies, membre | 1 632 | 1 246 |
| A. Carnwath, membre | 292 | na |
| V. L.L. Chu, membre | 1 632 | 1 246 |
| R. del Pino, membre | 292 | na |
| Th. Escher, membre | 9 470 | 7 084 |
| F. Kindle, membre | 16 915 | 16 529 |
| A. Meyer, membre | 3 239 | 2 853 |
| D. Nicolaisen, membre | 1 915 | 1 529 |
| V. L. Sankey, membre | na | 2 699 |
| R. Watter, membre | 4 883 | 4 497 |
| **Total** | **65 620** | **46 886** |

[1] Aucun des administrateurs, conjointement aux parties qui leur sont liées, ne détenait plus de 0,5% des droits de vote de Zurich Insurance Group SA au 31 décembre 2012 ou au 31 décembre 2011, respectivement.

### Options d'achat d'actions détenues par les administrateurs

Les membres des Conseils d'administration de Zurich Insurance Group SA et de Zurich Compagnie d'Assurances SA ne participent à aucun plan d'options d'achat d'actions à l'intention de la Direction générale. Ainsi, aucune option d'achat d'actions n'a été attribuée au cours de l'exercice considéré ou des exercices antérieurs. Aucun des membres du Conseil d'administration, ni aucune des parties qui leur sont liées, ne détenait d'options d'achat d'actions ou de droits de conversion sur des actions de Zurich Insurance Group SA au 31 décembre 2012 ou 2011.

# Rapport sur les rémunérations *suite*

### Honoraires et rémunérations supplémentaires pour les administrateurs

Aucun des membres du Conseil d'administration n'a perçu, de la part du Groupe ou de l'une des sociétés du Groupe, d'autres rémunérations ou avantages en nature que ceux mentionnés ci-dessus.

### Prêts personnels aux administrateurs

Indépendamment de son appartenance au Conseil d'administration et conformément aux conditions offertes aux autres clients, M. Watter bénéficiait d'une avance garantie sur police d'un montant de 2,5 millions de CHF au 31 décembre 2012 et 2011. Le taux d'intérêt annuel appliqué au prêt est de 4%. Hormis le prêt consenti à M. Watter, aucun des administrateurs n'avait d'encours de prêt, d'avance ou de crédit au 31 décembre 2012 ou 2011.

### Prêts personnels aux anciens administrateurs

Au 31 décembre 2012 et 2011 respectivement, aucun ancien administrateur ne bénéficiait d'encours de prêt, d'avance ou de crédit.

### Parties liées aux administrateurs ou à d'anciens membres du Conseil d'administration

Aucun avantage (ou abandon de créance) n'a été accordé à des parties liées aux administrateurs ou à des parties liées aux anciens membres du Conseil d'administration au cours des exercices 2012 et 2011. Par ailleurs, aucune partie liée aux administrateurs ou à d'anciens membres du Conseil d'administration n'avait d'encours de prêt, d'avance ou de crédit au 31 décembre 2012 et 2011.

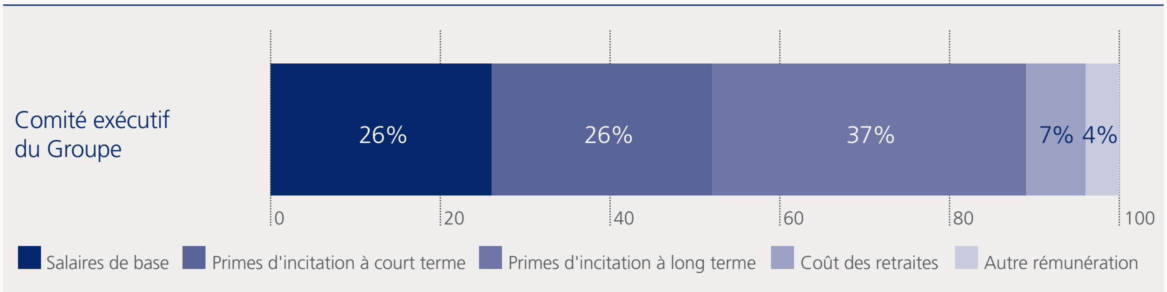
## Comité exécutif du Groupe (GEC)

### Rémunération du Comité exécutif du Groupe

En 2012, la rémunération totale des membres du GEC comprenait le montant de la rémunération en espèces (y compris les primes en espèces à court terme), les prestations de retraite, les autres rémunérations et les attributions d'actions cibles effectuées dans le cadre du Group LTIP en 2012.

La structure de rémunération et la répartition des éléments individuels de rémunération pour les membres du GEC sont déterminées en prenant en compte les pratiques du marché concerné et les rapports internes.

La répartition de la rémunération totale en 2012 entre les éléments individuels de rémunération est présentée dans le graphique suivant et est fondée sur les valeurs cibles pour la rémunération liée à la performance.




Comme on peut le constater sur le graphique ci-dessus, il existe un juste équilibre entre les éléments de rémunération; l'accent est mis sur la rémunération liée à la performance, au moyen non seulement du plan d'incitation à court terme (STIP) mais aussi du plan d'incitation à long terme (LTIP). La distribution des valeurs cibles entre les primes à court terme (un an) et à long terme (trois ans) met en évidence la priorité donnée aux primes à long terme.

Les éléments individuels de rémunération sont détaillés ci-dessous (les montants accordés au cadre supérieur le mieux rétribué y figurent également):

### Montant de la rémunération totale

Le montant total des différents éléments de rémunération versés aux membres du GEC en 2012 à été à 46,4 millions d'USD, soit un écart de 3,9 millions d'USD par rapport aux 50,3 millions d'USD versés en 2011 et calculés sur la même base. Cette baisse est due à des changements au niveau de la participation du GEC et à une baisse des dépenses pour les primes d'incitation en espèces octroyées durant l'exercice. En francs suisses, la valeur totale a baissé de 45,4 millions CHF à 42,6 millions CHF.

La valeur totale en 2012 comprend les éléments suivants (les chiffres comparatifs de 2011 sont présentés dans le tableau qui présente la rémunération totale de tous les membres du GEC):

**Salaires de base et primes annuelles en espèces versées en 2012**
Le montant total des salaires de base et des primes d'incitation annuelles en espèces accordées dans le cadre du Group STIP a atteint 24,3 millions d'USD en 2012. Ce montant comprend 12,0 millions d'USD en salaires de base et 12,3 millions d'USD de primes d'incitation annuelles en espèces qui reflètent les montants à payer en 2013 pour la performance de 2012. Les primes d'incitation annuelles en espèces sont déterminées individuellement et sont liées à la performance (voir page 66).

Le financement global des primes d'incitation est basé sur le profit global du Groupe en 2012 et les primes réellement versées aux salariés dépendent d'une combinaison de facteurs, notamment les résultats des activités dont le membre du GEC est responsable et sa performance individuelle concernant l'atteinte des objectifs stratégiques au cours de l'année. Pour les membres du GEC, y compris le CEO, les niveaux visés dans le cadre du plan d'incitation à court terme (STIP) 2012 varient entre 75 et 100% du salaire de base. Les primes octroyées à l'ensemble des membres du GEC, y compris le CEO, sont plafonnées à 200% du niveau cible.

**Attribution d'actions aux membres du Comité exécutif du Groupe dans le cadre du LTIP 2012**
Tel que décrit ci-dessus, les membres du GEC ont reçu en 2012, au titre du Group LTIP, un quota annuel d'actions liées à la performance. Dans des circonstances extraordinaires, des attributions d'actions restreintes peuvent aussi avoir lieu. Pour les membres du GEC, y compris le CEO, la valeur des primes cibles en 2012 a été fixée entre 100 et 225% du salaire de base de chaque membre.

Comme les années précédentes, les primes cibles pour 2012 ont été établies le troisième jour ouvré du mois d'avril, à savoir le 3 avril 2012. Le nombre cible d'actions liées à la performance a été calculé en divisant la valeur pécuniaire de la prime par le cours de l'action observé la veille de l'attribution de la prime.

Les modalités d'acquisition des primes et les critères de performance sont présentés aux pages 67 à 68. Les attributions d'actions suivantes au titre du Group LTIP ont été effectuées en 2012:

Attributions d'actions liées à la performance
Le nombre total d'actions liées à la performance attribuées aux membres du GEC au cours de l'exercice 2012 a été de 67 296. À titre de comparaison, 63 787 actions avaient été attribuées en 2011. Le montant des attributions d'actions liées à la performance cible réalisées le 3 avril 2012 au profit des membres du GEC pour l'année 2012 s'élevait à 16,8 millions d'USD à la date de l'attribution dans l'hypothèse d'un taux d'acquisition de 100%, d'un cours du titre de 225.90 CHF la veille de l'attribution et d'un taux de change de 1 CHF = 0.90315 USD. Quant aux membres du GEC qui ont intégré cet organe dans le courant de l'année 2012, le nombre et la valeur des attributions d'actions ont été calculés sur la base de la prime 2012, au prorata du temps passé en tant que membre du GEC cette année-là.

30 526 actions ont été acquises en 2012 par les membres du GEC qui y siégeaient en 2012, et ce au titre des distributions d'actions liées à la performance opérées en 2009, 2010 et 2011. Cela représente un niveau d'acquisition de base de 110% par rapport à l'objectif au vu des performances avérées en termes de ROE et de TSR relatives à la matrice d'acquisition du LTIP décrite à la page 68. La moitié des actions acquises dans le cadre du plan est bloquée à la vente pendant trois ans à partir de la date d'acquisition.

Attributions d'actions restreintes
Des attributions d'actions restreintes complètent les primes d'incitation à long terme normales et elles interviennent uniquement dans des circonstances extraordinaires, principalement pour les personnes nouvellement embauchées afin de compenser la perte de leurs droits en actions acquis auprès de leur ancien employeur. Ces attributions d'actions restreintes sont généralement acquises dans les trois à cinq ans qui suivent la date d'attribution et elles sont caduques si le détenteur de ces actions quitte la société de son plein gré avant la date d'acquisition, mettant fin au contrat de travail.

Aucune attribution d'actions restreintes n'est intervenue en faveur des membres du GEC en 2012 ni en 2011.

Attributions d'options d'achat d'actions
91 747 options d'achat d'actions ont été acquises en 2012 par les membres du GEC siégeant en 2012, et ce au titre des attributions d'options réalisées en 2009 et 2010. Cela représente un niveau d'acquisition de base de 110% par rapport à l'objectif au vu des performances réelles en termes de ROE et de TSR.

# Rapport sur les rémunérations *suite*

## Montant des prestations de retraite cumulées en 2012

Les membres du GEC participent aux régimes de retraite des entités dont ils sont salariés. La philosophie du Groupe est de fournir des prestations de retraite sous forme de montants en espèces et/ou de régimes à cotisations déterminées où les fonds s'accumulent tout au long de la carrière. La majorité des membres du GEC participent à de tels plans et, à terme, tous les futurs membres du GEC y participeront. Les autres membres du GEC participent aux régimes de retraite à prestations déterminées qui leur procurent des prestations de retraite en fonction des derniers revenus ouvrant droit à pension et de leur ancienneté. L'âge normal de départ à la retraite varie de 60 à 65 ans. La valeur totale des prestations de retraite revenant aux membres du GEC au cours de l'année 2012, calculée sur la base des coûts de service pour la compagnie tels qu'évalués conformément à la norme comptable IAS 19, était de 3,3 millions d'USD. Les coûts de service évaluent le montant des prestations de retraite cumulées au cours de l'exercice et, pour des régimes à cotisations déterminées, ils tiennent compte du montant des cotisations versées par la société au cours de l'exercice.

## Montant des autres rémunérations versées en 2012

Les membres du GEC ont reçu d'autres rémunérations en 2012 en relation avec les avantages des collaborateurs, indemnités d'expatriés, avantages indirects, avantages en nature et autres paiements dus en vertu du contrat de travail de chaque membre. Le montant total des autres rémunérations en 2012 s'élève à 2,0 millions d'USD. Les avantages en nature ont été évalués au prix du marché.

## Résumé de la rémunération totale du Comité exécutif du Groupe (GEC)

En référence aux chiffres ci-dessus, la rémunération totale des membres du GEC, y compris la rémunération en espèces, la valeur des attributions cibles d'actions pour 2012, les prestations de retraite et le montant des autres rémunérations atteignait 46,4 millions d'USD (50,3 millions d'USD en 2011), répartis comme suit:

Tous les membres du GEC (y compris le mieux rémunéré)

| en millions d'USD, pour les exercices arrêtés au 31 décembre | 2012[1, 2] | 2011[1, 3] |
|---|---|---|
| Salaires de base | 12,0 | 12,7 |
| Primes en espèces octroyées durant l'exercice | 12,3 | 14,0 |
| Valeur des attributions d'actions liées à la performance cible[4] | 16,8 | 16,8 |
| Coûts de service des prestations de retraite[5] | 3,3 | 3,4 |
| Valeur des autres rémunérations[6] | 2,0 | 3,4 |
| **Total en USD[7]** | **46,4** | **50,3** |
| **Total en CHF[8]** | **42,6** | **45,4** |

[1] Les rémunérations présentées dans le tableau sont des valeurs brutes calculées selon le principe de séparation des exercices. Elles ne comprennent aucune dépense qui aurait été engagée dans le cadre des activités des membres du GEC.
[2] Sur la base de 13 membres du GEC, dont 9 ont siégé tout au long de l'année 2012.
[3] Sur la base de 12 membres du GEC, dont 9 ont siégé tout au long de l'année 2011.
[4] Les actions attribuées seront remises à l'avenir en fonction du degré de réalisation de la performance cible. La valeur des actions est indiquée pour une distribution future correspondant à 100% des objectifs fixés, l'évaluation des actions attribuées en fonction de la performance cible reposant sur le cours de l'action la veille de leur distribution (225.90 CHF pour 2012 et 243.60 CHF pour 2011).
[5] Les montants reflètent la valeur totale des prestations de retraite cumulées pour les membres du GEC, en 2012 et 2011 respectivement, calculée sur la base des coûts de service pour la société évalués conformément à la norme comptable IAS 19. Les coûts de service évaluent le montant des prestations de retraite cumulées au cours de l'exercice et, pour les régimes à cotisations déterminées, ils tiennent compte du montant des cotisations versées par la société au cours de l'exercice. Les coûts de service ne comprennent pas les charges d'intérêts sur les avantages cumulés, les ajustements pour plus-values et moins-values actuarielles, ni le rendement escompté sur de quelconques actifs détenus.
[6] Comprend les avantages au personnel, indemnités d'expatriation, avantages indirects, avantages en nature et autres paiements prévus dans le contrat de travail. Les avantages en nature ont été évalués en utilisant les taux du marché.
[7] Conformément à la législation en vigueur dans les pays où les cadres exercent, Zurich a payé la part employeur des cotisations aux systèmes de sécurité sociale, soit 1,7 million d'USD en 2012 et 2,2 millions d'USD en 2011. Étant donné que les cotisations sont perçues sur l'intégralité du salaire alors que les prestations sont soumises à un plafond, il n'existe aucune corrélation directe entre les charges versées aux organismes de sécurité sociale et les prestations perçues par les cadres.
[8] Les montants ont été convertis au franc suisse aux taux de change en vigueur dans le courant de l'année et les primes en espèces qui seront versées en 2013 ont été converties au taux de change en vigueur en fin d'année 2012.

Sur la base de ces chiffres, la rémunération totale pour tous les membres du GEC comprend 37% (39% en 2011) de rémunération fixe (dont le salaire de base, les coûts de service pour les prestations de retraite et autres rémunérations) et 63% (61% en 2011) d'éléments liés à la performance (dont les primes d'incitation en espèces au titre du Group STIP, ainsi que la valeur des attributions d'actions liées à la performance cible).

### Membre du Comité exécutif du Groupe ayant la rémunération totale la plus élevée

M. Senn, le CEO du Groupe, a perçu la rémunération la plus élevée parmi les membres du GEC, soit 7,6 millions de CHF. Ce montant comprend son salaire de base en 2012, les primes en espèces perçues au titre de l'exercice 2012, la valeur des actions attribuées en 2012 au titre de la performance cible ainsi que la valeur des prestations de retraite et les autres rémunérations. En 2011, sa rémunération se compare à 7,9 millions de CHF. M. Senn perçoit l'intégralité de sa rémunération en francs suisses.

Le tableau suivant détaille la rémunération totale versée au membre le mieux rétribué du GEC:

Dirigeant le mieux rémunéré, Chief Executive Officer, Martin Senn en 2012 et en 2011

| en millions de CHF, pour les exercices arrêtés au 31 décembre | **2012**[1] | 2011[1] |
|---|---|---|
| Salaires de base | 1,60 | 1,60 |
| Primes en espèces octroyées durant l'exercice | 2,00 | 2,40 |
| Valeur des attributions d'actions liées à la performance cible[2] | 3,60 | 3,60 |
| Coûts de service des prestations de retraite[3] | 0,30 | 0,20 |
| Valeur des autres rémunérations[4] | 0,10 | 0,10 |
| **Total en CHF** | **7,60** | **7,90** |
| **Total en USD[5]** | **8,30** | **8,60** |

[1] Les rémunérations présentées dans le tableau sont des valeurs brutes calculées selon le principe de séparation des exercices. Elles ne comprennent aucune dépense qui aurait été engagée dans le cadre des activités du CEO.
[2] Les actions attribuées seront remises à l'avenir en fonction du degré de réalisation de la performance cible. La valeur des actions est indiquée pour une distribution future correspondant à 100% des objectifs fixés, l'évaluation des actions attribuées en fonction de la performance cible reposant sur le cours de l'action la veille de leur distribution (225.90 CHF pour 2012 et 243.60 CHF pour 2011).
[3] Les montants reflètent la valeur totale des prestations de retraite calculée sur la base des coûts de service pour la société évalués conformément à la norme comptable IAS 19. Les coûts de service évaluent le montant des prestations de retraite cumulées au cours de l'exercice et, pour les régimes à cotisations déterminées, ils tiennent compte du montant des cotisations versées par la société au cours de l'exercice. Les coûts de service ne comprennent pas les charges d'intérêts sur les avantages cumulés, les ajustements pour plus-values et moins-values actuarielles, ni le rendement escompté sur de quelconques actifs détenus.
[4] Comprend les avantages au personnel, avantages indirects, avantages en nature et autres paiements prévus dans le contrat de travail. Les avantages en nature ont été évalués en utilisant les taux du marché.
[5] La rémunération de M. Senn est versée en francs suisses. Les montants ont été convertis du franc suisse au dollar américain aux taux de change en vigueur dans le courant de l'année et les primes en espèces qui seront versées en 2013 ont été converties au taux de change en vigueur en fin d'année 2012.

### Versement spéciaux pour les membres du Comité exécutif du Groupe ayant pris leurs fonctions en cours d'année

En 2012, trois membres ont été nommés au GEC. Leur arrivée n'a donné lieu à aucun versement spécial (p. ex. «golden handshake») ni à aucun autre avantage.

### Indemnités de départ pour les membres du Comité exécutif du Groupe ayant quitté leurs fonctions durant l'exercice

En 2012, deux membres du GEC ont quitté le Groupe. Les accords conclus avec les partants ont donné lieu au versement d'une rémunération en conformité avec leur contrat de travail. Leur départ n'a donné lieu à aucune indemnité de départ (p. ex. «golden parachute») ni à aucun autre avantage tel que des accords sur les délais de préavis spéciaux ou les contrats à plus long terme (durée supérieure à 12 mois), le renoncement aux périodes de blocage des actions, un raccourcissement de la période d'acquisition ou des cotisations supplémentaires aux régimes complémentaires de retraite.

### Rémunération des anciens membres du Comité exécutif du Groupe

Comme mentionné dans les rapports précédents, un des membres ayant quitté le Groupe fin 2010 après de nombreuses années de service a continué de fournir des services en tant que consultant en 2011 et 2012. En reconnaissance des obligations contractuelles antérieures et postérieures, ainsi qu'à sa prestation de services en 2012, ce membre a perçu une rémunération d'un montant de 2,4 millions d'USD en 2012. Aucun autre ancien membre du GEC n'a perçu de rémunération en 2012.

### Résumé des engagements actuels totaux en actions en faveur des membres du Comité exécutif du Groupe au titre du Group LTIP

Attributions d'actions

*Attributions d'actions liées à la performance*

Le nombre total d'actions en circulation au 31 décembre 2012 attribuées en fonction de la performance cible aux membres du GEC dans le cadre du Group LTIP, s'élevait à 98 257 (contre 77 273 au 31 décembre 2011). Un résumé des attributions restant dues au 31 décembre 2012 est présenté dans le tableau ci-dessous:

# Rapport sur les rémunérations *suite*

Résumé des attributions d'actions en circulation liées à la performance

| Période de performance | Attributions d'actions liées à la performance cible | Cours d'attribution, en CHF | Années futures d'acquisition |
|---|---|---|---|
| 2012–2014 | 59 629 | 225.90 | 2013–2015 |
| 2011–2013 | 31 972 | 243.60 | 2013–2014 |
| 2010–2012 | 6 656 | 259.90 | 2013 |

Dans le cadre du Group LTIP, ces attributions d'actions liées à la performance sont amenées à être acquises par tiers au cours des trois années qui suivent leur attribution. En outre, la moitié des actions acquises fera l'objet de restrictions à la vente pendant une période de trois ans. Le niveau réel d'acquisition est déterminé conformément aux principes de rémunération présentés à la page 63 et à la matrice d'acquisition du plan d'incitation à long terme telle que décrite à la page 68.

*Attributions d'actions restreintes*
Il n'y avait aucune action restreintes en circulation au 31 décembre 2012 allouées aux membres du GEC (494 actions restreintes étaient en circulation à la fin 2011).

*Attributions d'options d'achat d'actions*
Aux termes du programme d'options d'achat d'actions destiné aux cadres supérieurs, le Groupe a autrefois émis des options d'achat d'actions en faveur de certaines personnes dans le cadre de règles définies. Un terme a été mis aux attributions d'options d'achat d'actions à compter de l'exercice 2011.

En lien avec la refonte du Group LTIP en 2003, des attributions d'options étaient effectuées chaque année le troisième jour ouvrable du mois d'avril. De plus, le prix d'exercice pour les options attribuées autrefois était fixé au cours du marché le jour précédant la date d'attribution. Les options attribuées en fonction de la performance sont considérées en vue d'une acquisition à raison de versements par tiers échelonnés sur les trois années qui suivent leur octroi. Le niveau réel d'acquisition est déterminé par la matrice d'acquisition du Group LTIP telle que décrite à la page 68.

Pour éviter que les cadres ne perdent la valeur de leurs options, en 2011, le Conseil d'administration a approuvé une transaction d'exercice et vente automatique pour toutes les options dans le cours à la fin de la période d'exercice. Dans le cas contraire, leurs bénéficiaires essuieraient une perte s'il leur était interdit de négocier les options dans le cas où ils auraient connaissance d'informations susceptibles d'en influencer le cours.

Dans le cadre du programme d'options d'achat d'actions, le nombre total d'actions sous option pour les membres du GEC au 31 décembre 2012 et 2011, respectivement, figure dans les tableaux ci-dessous.

Résumé de l'encours des options en 2012

au 31 décembre 2012

| Année d'attribution | Nombre d'options acquises | Nombre d'options non acquises | Nombre total d'actions sous option | Prix d'exercice par action, en CHF | Année d'échéance |
|---|---|---|---|---|---|
| 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** | | |

Résumé de l'encours des options en 2011

| au 31 décembre 2011<br>Année d'attribution | Nombre d'options acquises | Nombre d'options non acquises | Nombre total d'actions sous option | Prix d'exercice par action, en CHF | Année d'échéance |
|---|---|---|---|---|---|
| 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** | | |

Toutes les options susmentionnées permettent à leur détenteur de souscrire une action de Zurich Insurance Group SA au prix d'exercice indiqué, assortie de droit de vote et de droit aux dividendes.

**Actions et options d'achat d'actions détenues par les membres du Comité exécutif du Groupe**

Le tableau suivant détaille les participations réelles des membres du GEC sous forme d'actions et d'options d'achat d'actions au 31 décembre 2012 et 2011. En plus des actions achetées sur le marché, les chiffres comprennent les actions acquises, qu'elles soient restreintes à la vente ou non, et les options d'achat d'actions acquises au titre du Group LTIP. Toutefois, le tableau ne comprend pas les intérêts des membres du GEC sur leur participation sous forme d'actions liées à la performance encore non acquises, d'actions restreintes non acquises ou d'options d'achat d'actions liées à la performance non acquises.

Tous les intérêts sont détenus en compte propre et englobent les actions ou les options d'achat d'actions détenues par des parties liées aux membres du GEC.

Gouvernance

Actions et options d'achat d'actions détenues par les membres du GEC[1]

| Nombre d'actions et d'options d'achat acquises, au 31 décembre | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Actions** | **Options acquises[2]** | Actions | Options acquises[2] |
| M. Senn, Chief Executive Officer | 29 719 | 103 447 | 20 936 | 81 362 |
| J. Dailey, Chief Executive Officer Farmers Group, Inc.[3] | 2 373 | 14 987 | na | na |
| M. Foley, Chief Executive Officer North America Commercial et Regional Chairman of the Americas | 9 306 | 52 710 | 9 726 | 41 348 |
| M. Greco, Chief Executive Officer General Insurance[4] | na | na | 7 847 | 36 885 |
| Y. Hausmann, Group General Counsel[5] | 3 728 | 7 301 | na | na |
| K. Hogan, Chief Executive Officer Global Life | 3 080 | 13 032 | 1 466 | 8 185 |
| M. Kerner, Chief Executive Officer General Insurance[6] | 8 469 | 24 432 | na | na |
| A. Lehmann, Chief Risk Officer and Regional Chairman of Europe | 23 128 | 84 640 | 18 671 | 86 713 |
| C. Orator, Chief Administrative Officer[7] | na | na | 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] Aucun des membres du GEC ou des parties qui leur sont liées ne détenait plus de 0,5% des droits de vote au 31 décembre 2012 ou 2011, que ce soit directement ou par le biais d'options sur actions.
[2] La répartition des options acquises au titre des primes recensées dans les tableaux «Résumé de l'encours des options» est présentée dans le tableau ci-dessous.
[3] M. Dailey a été nommé au GEC le 1er janvier 2012.
[4] M. Greco a quitté ses fonctions le 4 juin 2012 et son contrat de travail est arrivé à terme le 31 juillet 2012.
[5] M. Hausmann a été nommé au GEC le 1er juillet 2012.
[6] M. Kerner a été nommé au GEC le 1er septembre 2012.
[7] M. Orator a quitté ses fonctions le 30 juin 2012 et son contrat de travail est arrivé à terme le 31 décembre 2012.

# Rapport sur les rémunérations *suite*

Les tableaux suivants présentent la répartition des options d'achat d'actions acquises détenues par les membres du GEC en fonction des attributions recensées dans les tableaux «Résumé de l'encours des options» au 31 décembre 2012 et 2011, respectivement.

## Répartition des options d'achat d'actions acquises en 2012

| Nombre d'options d'achat d'actions acquises au 31 décembre 2012 | Année d'attribution | | | | | 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 | na | na | 14 987 |
| M. Foley | 16 907 | 13 640 | 11 568 | 10 595 | na | 52 710 |
| Y. Hausmann[2] | 7 301 | na | na | na | na | 7 301 |
| K. Hogan | 7 212 | 5 820 | na | na | na | 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] M. Dailey a été nommé au GEC le 1er janvier 2012.
[2] M. Hausmann a été nommé au GEC le 1er juillet 2012.
[3] M. Kerner a été nommé au GEC le 1er septembre 2012.

## Répartition des options d'achat d'actions acquises en 2011

| Nombre d'options d'achat d'actions acquises au 31 décembre 2011 | Année d'attribution | | | | | | Total |
|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | |
| M. Senn | 21 663 | 11 603 | 17 094 | 19 200 | 11 802 | na | 81 362 |
| M. Foley | 9 316 | 9 869 | 11 568 | 10 595 | na | na | 41 348 |
| M. Greco | 11 606 | 11 603 | 13 676 | na | na | na | 36 885 |
| K. Hogan | 3 974 | 4 211 | na | na | na | na | 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 | na | 12 987 |
| C. Reyes | 7 737 | 1 530 | 2 256 | 1 950 | 1 650 | na | 15 123 |
| G. Riddell | 8 670 | 8 868 | 14 330 | 18 623 | 12 194 | na | 62 685 |
| K. Terryn | 3 465 | 3 465 | 3 624 | 3 108 | 2 729 | na | 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] M. Wauthier a été nommé au GEC le 1er octobre 2011.

### Plans de négoce

Afin de faciliter la vente d'actions et l'exercice d'options pour les membres du GEC, le Conseil d'administration a approuvé la mise en place de plans de négoce en vigueur depuis 2008. Ces plans permettent aux membres de vendre des actions et/ou de lever des options d'achat d'actions dans le cadre d'un programme de transactions prédéfini. Les plans de négoce ne peuvent être établis que lorsque la personne ne dispose pas d'informations confidentielles sur le Groupe susceptibles d'influencer le cours de l'action. En outre, la première transaction dans le cadre d'un plan de négoce ne peut être réalisée que trois mois après la date où il a été créé. Les modalités des transactions doivent être définies et ne peuvent être modifiées. Tous les plans de négoce des membres requièrent l'approbation du président du Conseil d'administration. Une fois convenues, les transactions ont lieu à un rythme mensuel, y compris pendant les périodes de clôture des comptes du Groupe. Les plans de négoce établis pour un membre du GEC sont signalés à la SIX Swiss Exchange, conformément aux règles de publication des transactions. En 2011, le Conseil d'administration a approuvé l'extension du concept de plan de négoce à certains cadres qui, de par la nature de leurs fonctions, se voient souvent interdire le négoce des actions Zurich. Aucun plan de négoce n'était en cours au 31 décembre 2012. En outre, aucun plan de négoce n'a été initié en 2012 ni en 2011 et celui mis en œuvre en 2010 a pris fin en 2011.

### Honoraires et rémunérations supplémentaires des membres du Comité exécutif du Groupe
Aucun des membres du GEC n'a perçu d'autres rémunérations que celles mentionnées ci-dessus, de la part du Groupe ou de l'une des sociétés du Groupe en 2012 et en 2011.

### Prêts personnels aux membres du Comité exécutif du Groupe
Au 31 décembre 2012 et 2011, aucun encours de prêt, d'avance ou de crédit n'était recensé en faveur des membres du GEC.

### Prêts personnels aux anciens membres du Comité exécutif du Groupe
Les anciens membres du GEC sont habilités à poursuivre leurs prêts hypothécaires après leur retraite dans les mêmes conditions que celles qui prévalaient lorsqu'ils étaient salariés, conformément aux conditions susmentionnées applicables aux collaborateurs de Zurich en Suisse.

Au 31 décembre 2012 et 2011, aucun ancien membre du GEC n'avait d'encours de prêts, d'avances ou de crédits.

### Parties liées aux membres ou à d'anciens membres du Comité exécutif du Groupe
Aucun avantage (ou abandon de créance) n'a été accordé à des parties liées aux membres du GEC ou à des parties liées aux anciens membres du GEC au cours des années 2012 et 2011. Par ailleurs, aucune partie liée aux membres du GEC ou à d'anciens membres du GEC ne bénéficiait d'encours de prêt, d'avance ou de crédit au 31 décembre 2012 et 2011.

## Tous les collaborateurs
La section suivante contient les informations relatives à la rémunération totale perçue par les collaborateurs au cours de l'exercice 2012 dans toutes les sociétés du Groupe, y compris la rémunération des membres du GEC, conformément aux exigences de divulgation supplémentaires présentées dans la circulaire de la FINMA sur les systèmes de rémunération, en vigueur depuis 2010. Le Groupe comptait 52 722 et 52 648 salariés (équivalent temps plein) au 31 décembre 2012 et 2011, respectivement.

### Rémunération fixe
La rémunération fixe comprend les salaires de base, les autres rémunérations et les coûts de services des prestations de retraite.

Rémunération fixe

| en millions d'USD, pour les exercices arrêtés au 31 décembre | 2012 | 2011 |
|---|---|---|
| Salaires de base | 4 036 | 4 025 |
| Montant des autres rémunérations[1] | 628 | 578 |
| Coûts de service des prestations de retraite[2] | 474 | 451 |
| **Rémunération fixe totale** | **5 138** | **5 054** |

[1] Inclut les avantages du personnel tels que les couvertures santé et soins dentaires et les autres avantages annexes, etc.
[2] Cela représente l'augmentation de la valeur actuelle des régimes de retraite à prestations déterminées découlant de l'emploi du collaborateur au cours de l'exercice comptable. Le montant affiché est le résultat d'un calcul actuariel et est susceptible de varier d'une année sur l'autre en fonction des conditions économiques.

### Rémunération variable:
Sur la base des recommandations du comité des rémunérations, le Conseil d'administration approuve le montant cumulé de l'enveloppe globale de rémunération variable pour l'année de performance. Cela comprend:

- Le montant total des primes en espèces à verser pour l'année de performance, qui comprend à la fois le montant des enveloppes cumulées au titre du Group STIP et les sommes à verser au titre des plans locaux d'incitation à court terme.

- Le montant des primes cibles d'incitation à long terme octroyées en cours d'année dans l'hypothèse que les primes seront acquises à 100% dans le futur.

- Le montant total des primes à la signature accordées au cours de l'année de performance. Ces versements ont été accordés à des personnes embauchées en 2012.

- Le montant total des primes de départ accordées au cours de l'année de performance. Ces versements ont été accordés à des personnes dont le contrat s'est terminé en 2012.

# Rapport sur les rémunérations *suite*

Par principe, le Groupe n'accorde pas de primes à la signature ni d'indemnités de départ. Toutefois, si les circonstances l'exigent et que cette pratique sert les intérêts du Groupe, des processus d'approbation bien définis sont suivis.

Les chiffres n'incluent aucuns frais ou crédit procédant de la rémunération versée au cours de l'exercice 2012 et découlant des exercices précédents:

Les commissions versées aux agents commerciaux salariés ne sont pas incluses dans le calcul de l'enveloppe globale de rémunération variable. Les programmes de commissionnement à la vente des commerciaux salariés ne sont pas considérés comme une composante des programmes de primes d'incitation liées à la rentabilité. Les commissions de vente comme celles versées à un courtier ou à d'autres distributeurs externes, constituent un coût de distribution. Les commerciaux salariés ne génèrent pas de risques financiers car ils ne sont pas impliqués dans la fixation des prix des produits qu'ils vendent. En ce qui concerne les risques d'exploitation et de réputation, notamment dans l'hypothèse d'une vente abusive, leur contrôle est garanti par le respect obligatoire à l'échelle du Groupe de la politique de Zurich en matière de risque (Zurich Risk Policy) et des Zurich Basics, le code de conduite du Groupe.

Pour fixer le montant de l'enveloppe globale de rémunération variable, le Conseil d'administration examine la performance économique à long terme du Groupe, ainsi que d'autres facteurs pertinents. Le bénéfice économique moyen est obtenu en soustrayant du bénéfice d'exploitation ajusté après impôts le rendement requis du capital, basé sur le coût moyen pondéré du capital. À cet égard, le Groupe a dégagé un bénéfice économique sur le long terme qui excède le montant réel de l'enveloppe consacrée à la rémunération variable.

### Rémunération variable

| en millions d'USD, pour les exercices arrêtés au 31 décembre | **2012** | 2011 |
|---|---|---|
| Primes en espèces obtenues pour l'exercice[1] | 474 | 482 |
| Valeur des actions attribuées en fonction de la performance cible[2,3] | 134 | 136 |
| **Enveloppe de rémunération variable totale** | **608** | **618** |

[1] Primes à la signature et indemnités de départ (en espèces) comprises.
[2] Primes à la signature (en actions) comprises.
[3] Les actions attribuées seront remises à l'avenir en fonction du degré de réalisation de la performance cible. La valeur des actions est indiquée pour une distribution future correspondant à 100% des objectifs fixés, l'évaluation des actions attribuées en fonction de la performance cible reposant sur le cours de l'action la veille de leur distribution (225.90 CHF pour 2012 et 243.60 CHF pour 2011). Les charges figurant dans les états financiers peuvent être calculées sur une base d'attribution différente.

Le nombre total de bénéficiaires d'une rémunération variable avoisine 46 000 en 2012 (48 000 en 2011). En 2012, l'enveloppe globale du Group STIP a abouti à un niveau d'acquisition de 91% de la cible, contre 97% de la cible pour le Group LTIP par les années 2010 à 2012.

**Rémunération totale**
La somme des rémunérations variable et fixe donne le total suivant pour l'ensemble des collaborateurs:

### Rémunération totale

| en millions d'USD, pour les exercices arrêtés au 31 décembre | **2012** | 2011 |
|---|---|---|
| Espèces (fixe) | 4 036 | 4 025 |
| Espèces (variable)[1] | 474 | 482 |
| Actions[2] | 134 | 136 |
| Autres[3] | 1 102 | 1 029 |
| **Rémunération totale** | **5 746** | **5 672** |

[1] Inclut les primes en espèces, les primes à la signature et les indemnités de départ en espèces.
[2] Inclut les attributions d'actions liées à la performance et les primes à la signature en actions.
[3] Inclut les autres rémunérations et les prestations de retraite.

### Valeur de l'encours de rémunération différée

Le système de rémunération du Groupe prévoit des instruments d'étalement de la rémunération. Le tableau suivant donne un aperçu de la valeur globale de l'encours de rémunération différée au 31 décembre 2012 et 2011:

Valeur de l'encours de rémunération différée

| en millions d'USD, pour les exercices arrêtés au 31 décembre | **2012** | 2011 |
|---|---|---|
| Attributions d'actions liées à la performance non acquises | 225 | 203 |
| Attributions d'options liées à la performance non acquises | 7 | 22 |
| Attributions d'actions restreintes non acquises | 7 | 6 |
| Actions acquises mais dont la vente est restreinte | 140 | 143 |
| **Valeur de l'encours global de rémunération différée** | **379** | **374** |

La valeur de la rémunération différée a été calculée en multipliant le nombre d'actions et d'options restant à verser par les cours respectifs de l'action et de l'option à la date d'origine de l'attribution et dans l'hypothèse d'un taux d'acquisition de 100%.

### Impact sur le bénéfice net 2012 et 2011 de la rémunération accordée les années précédentes

Dans le cadre du plan Group LTIP, un calcul est réalisé chaque année à la date d'acquisition pour déterminer le nombre réel d'actions et d'options à distribuer aux bénéficiaires du plan par rapport au nombre prévu au moment de la date d'octroi. Tout écart de valeur est reflété dans le compte de résultat consolidé de l'année d'acquisition. Pour les actions et options acquises en 2012 et en 2011, aucune différence tangible n'a été constatée entre le montant estimé et celui avéré.

### Primes à la signature et indemnités de départ pour les Key Risk Takers

Tel que mentionné ci-dessus, par principe, le Groupe n'accorde pas de primes à la signature ni d'indemnités de départ. Toutefois, si les circonstances l'exigent et que cette pratique sert les intérêts du Groupe, ces versements peuvent être approuvés à l'issue d'un processus de gouvernance bien défini. En ce qui concerne la divulgation des primes à la signature et des indemnités de départ en faveur des personnes occupant des postes clés impliquant une prise de risques, ces derniers ont bénéficié en 2012 et en 2011 des primes à la signature et indemnités de départ suivantes:

Primes à la signature et indemnités de départ pour les Key Risk Takers

| en millions d'USD, pour les exercices arrêtés au 31 décembre | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Montant (en millions d'USD)** | **Nombre de bénéficiaires** | Montant (en millions d'USD) | Nombre de bénéficiaires |
| Primes à la signature versées/nombre de bénéficiaires[1] | 3 | 6 | 3 | 7 |
| Indemnités de départ versées/nombre de bénéficiaires[2] | 2 | 5 | 3 | 7 |

[1] Les «primes à la signature» sont des paiements (versés immédiatement ou progressivement) convenus à l'exécution d'un contrat de travail.
[2] Les «indemnités de départ» sont des indemnités versées à l'occasion de la cessation d'un contrat de travail. Zurich n'inclut pas dans les «indemnités de départ» la rémunération des salariés dispensés de prestation du préavis ou les paiements similaires au profit des collaborateurs dans les juridictions où ces paiements sont exigés par la législation en vigueur ou lorsqu'ils sont fondés sur les périodes de préavis contractuelles conformes aux pratiques reconnues sur le marché ou bien ils sont non contractuels mais conformes aux pratiques reconnues sur le marché. En revanche, Zurich inclut la rémunération des salariés dispensés de prestation du préavis ou les paiements similaires qui vont au-delà des pratiques reconnues sur le marché, qu'ils soient versés selon les termes d'un contrat ou à titre gracieux.
[3] À cet égard, le terme «paiements» englobe les espèces, actions, avantages et primes d'un précédent employeur auxquels le salarié a renoncé ou toute autre valeur pécuniaire.

# Group performance review

**In this section**

# 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.

## Contents



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.

## Contents



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.

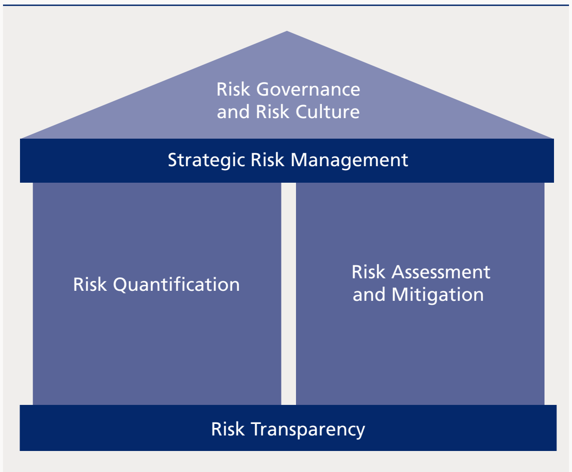
The Group's major risk management objectives are to:

- 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*

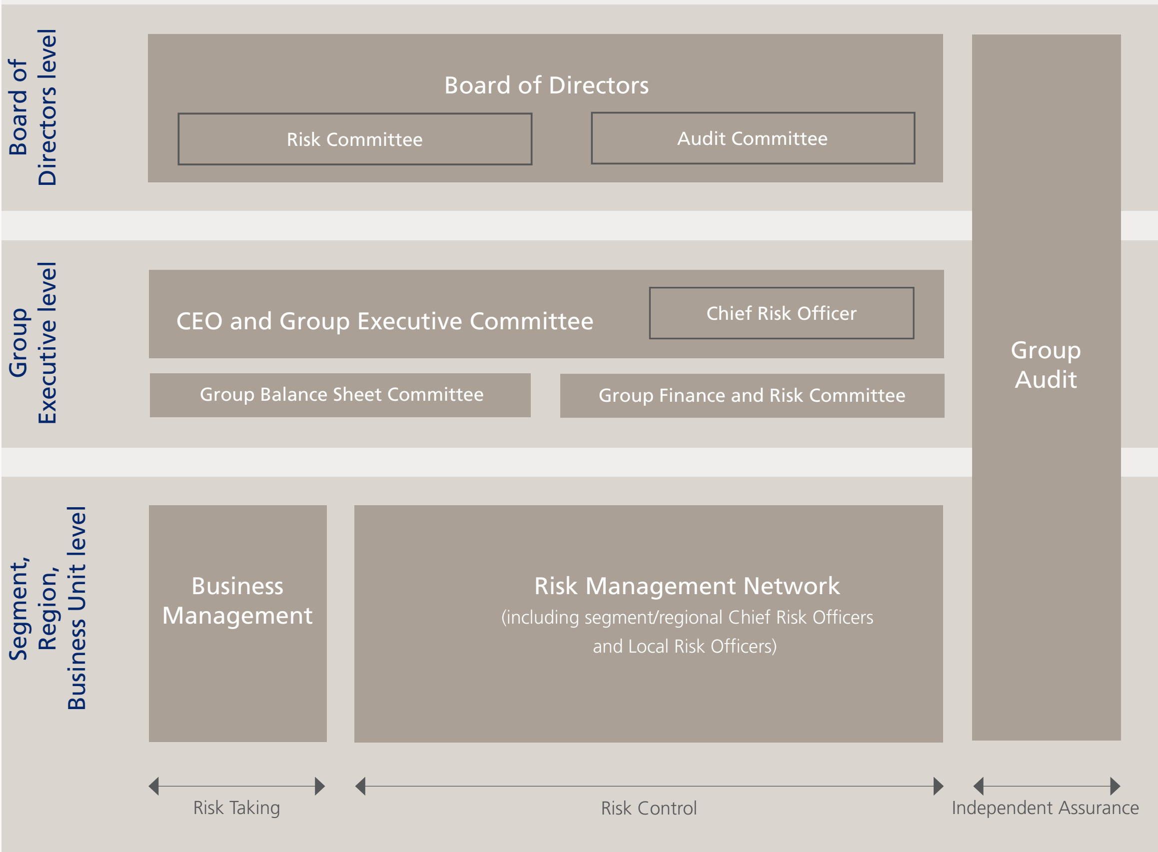
The Group is also involved in a number of international industry organizations engaged in advancing the regulatory dialogue and sound risk management practices pertaining to insurance. Zurich is also a standing member of and actively contributes to the Emerging Risk Initiative of the CRO Forum (an organization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

Insurance risk sensitivity for the General Insurance business – current period

Table 2.a

| 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) |

Insurance risk sensitivity for the General Insurance business – prior period

Table 2.b

| 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) |

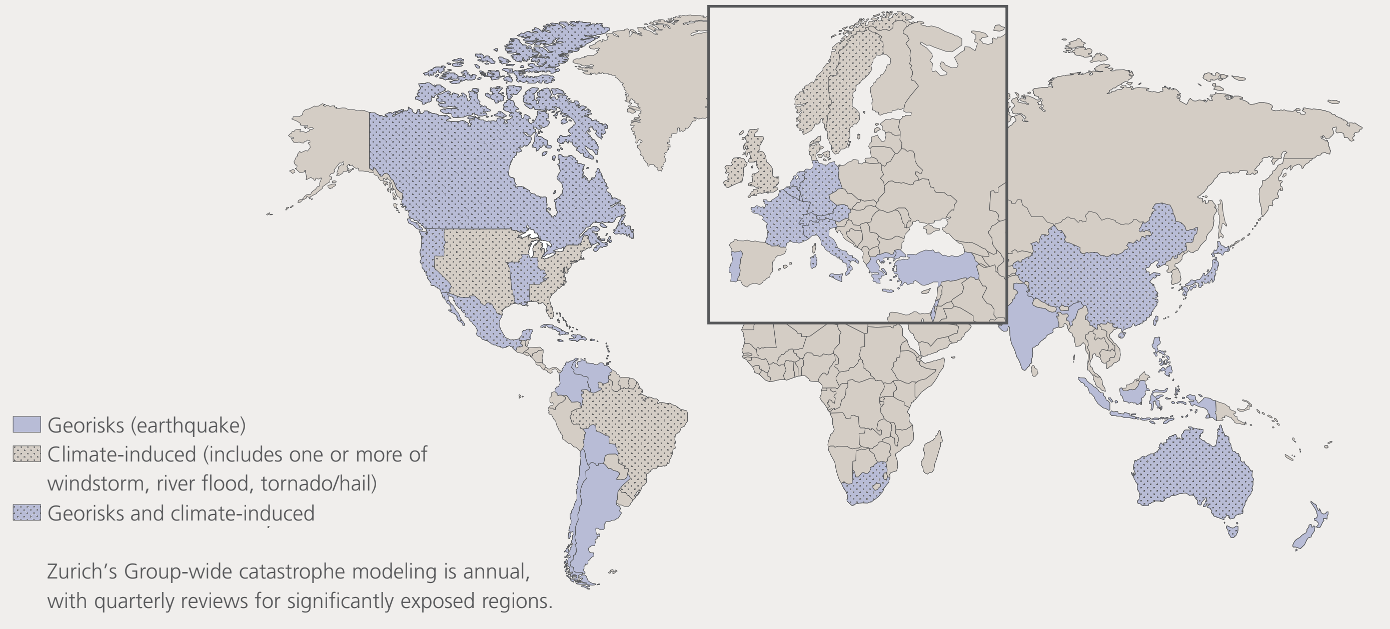
## Modeling natural catastrophes

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




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

# Risk review *continued*

## Risks from man-made catastrophes

Man-made catastrophes include such risks as industrial accidents and all types of terrorism attacks. Zurich's experience in monitoring potential exposures from natural catastrophes is also applicable to threats posed by man-made catastrophes, particularly terrorism.

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*

Reserves, net of reinsurance, by region

Table 3

| in USD millions, as of December 31 | Unit-linked insurance contracts | | Other life insurance liabilities | | Total reserves | |
|---|---|---|---|---|---|---|
| | **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.

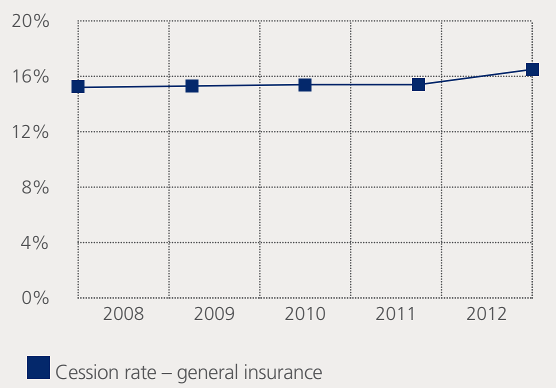
## Reinsurance for general insurance and life insurance

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.

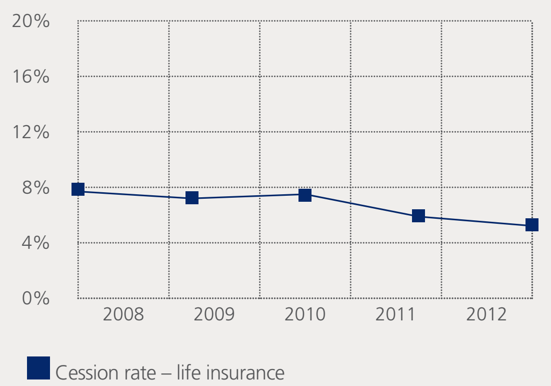
### Ceded premium – trend

(% 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.

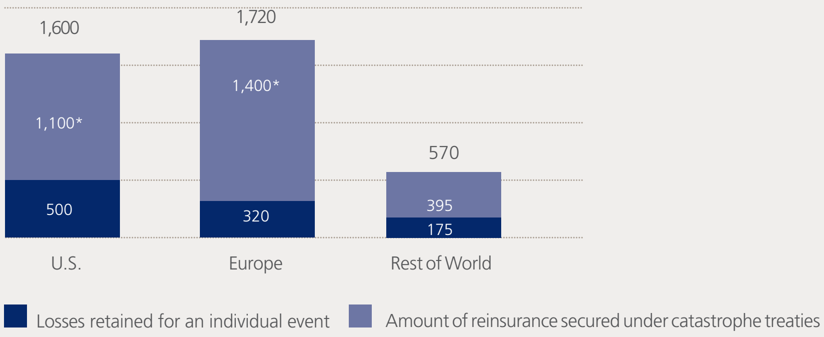
The Group uses reinsurance to manage risk to unusually severe or unusually frequent events, as illustrated on the following page, through the main in-force reinsurance covers as of December 31, 2012 for natural catastrophe events. The Group participates in the underlying risks through its retention and 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.)

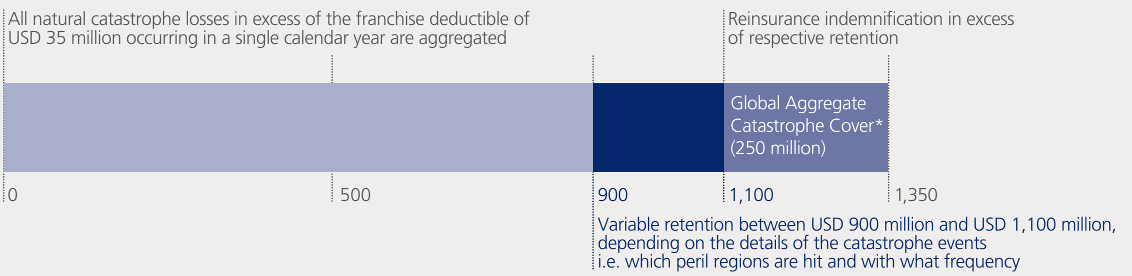
# Risk review *continued*

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

**Notes:**
- Structures are in place (via reinstatements) to cover 2 significant individual events per region.
- USD 1,100 million reinsurance protection for U.S. includes a bilateral risk swap of USD 142 million.




## 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*

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

Table 4.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 | (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** |

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

Table 4.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 | (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)** |

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

Table 5.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 | | | | | | |
| 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

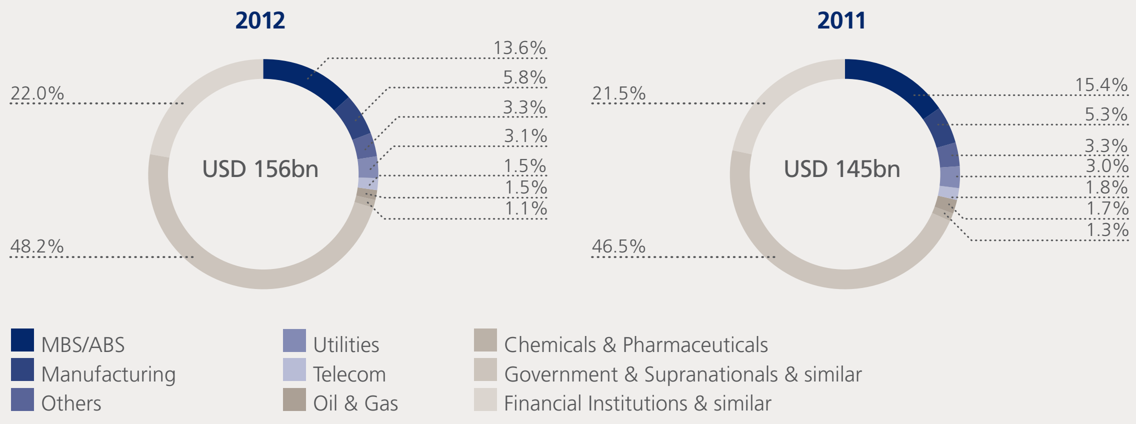
| as of December 31 | 2012 | | 2011 | |
|---|---|---|---|---|
| | **USD millions** | **% of total** | USD millions | % of total |
| Rating | | | | |
| AAA | 48,590 | 31.2% | 54,951 | 38.0% |
| AA | 48,046 | 30.9% | 37,395 | 25.9% |
| A | 26,982 | 17.3% | 35,470 | 24.6% |
| BBB | 29,034 | 18.7% | 13,626 | 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.

# 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.

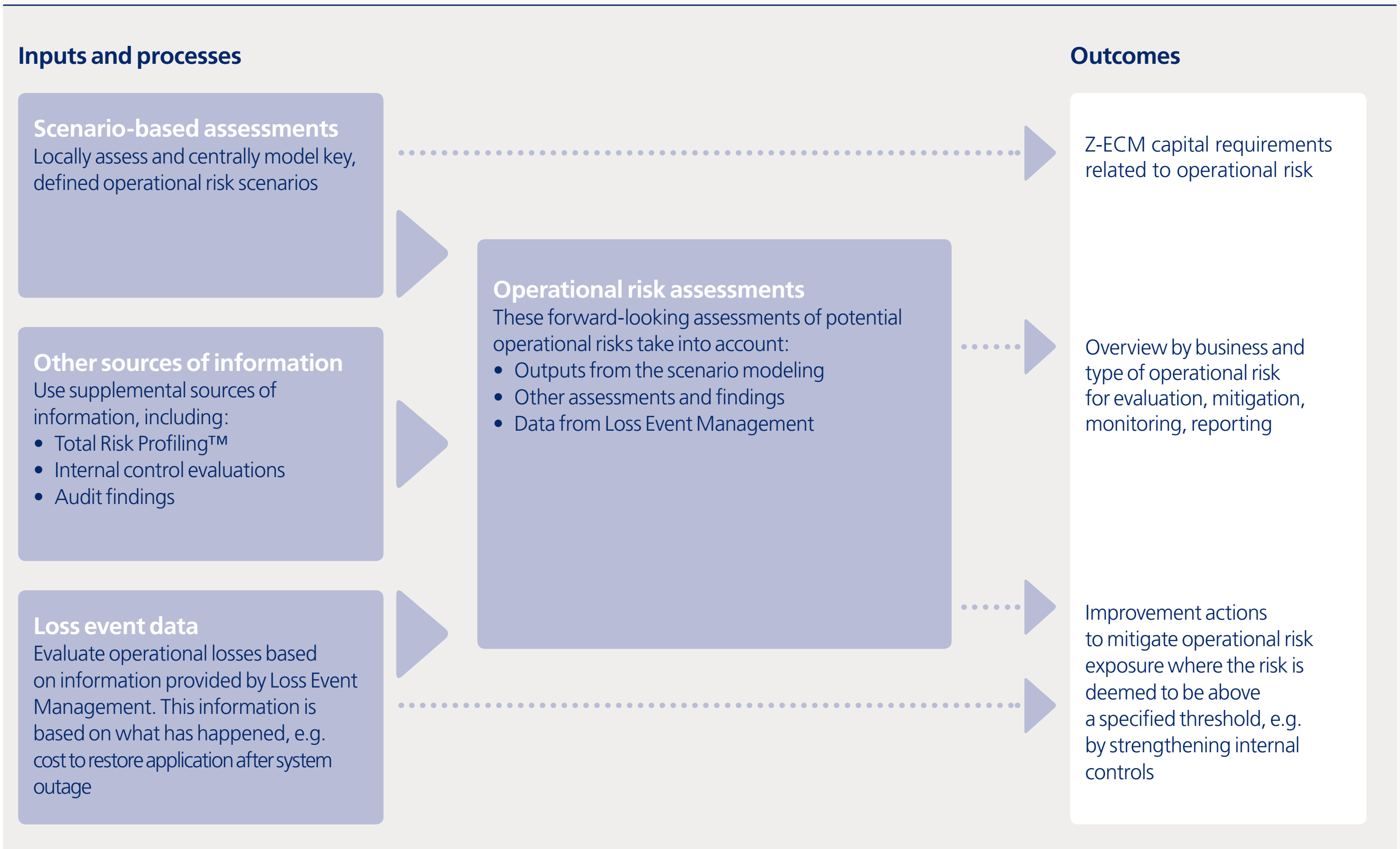
# Risk review *continued*

## 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

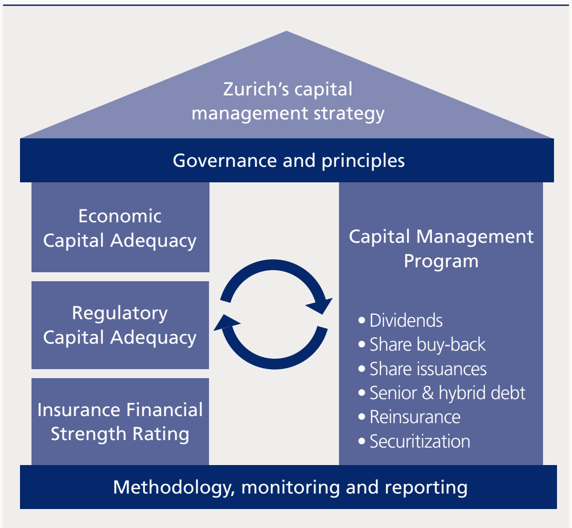
The Group's capital management strategy is to maximize long term shareholder value by optimizing capital allocation while managing the balance sheet at "AA" level and in accordance with regulatory, solvency and rating agency requirements. In particular, the Group endeavors to manage its capital such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

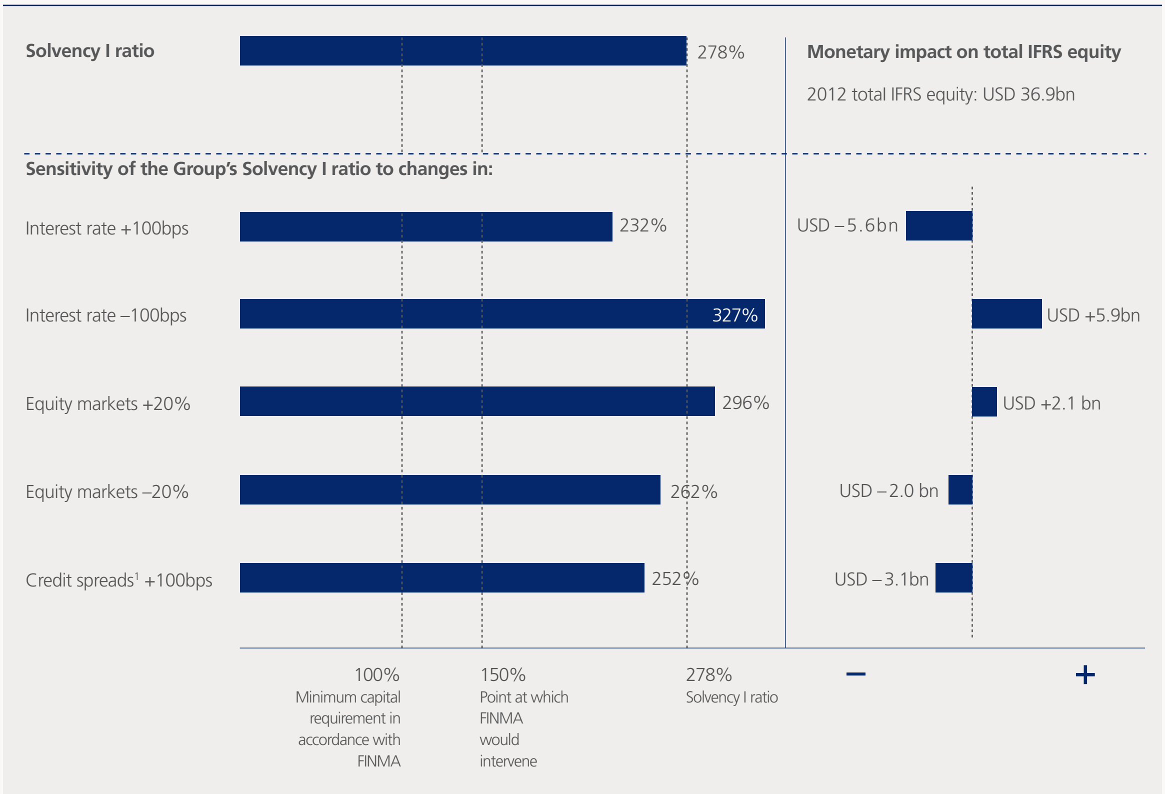
The following chart shows the estimated impact on the Group's solvency position of a one percentage point increase/decrease in yield curves, a separate 20 percent rise/decline in all stock markets, after consideration of hedges in place and a separate one percentage point change in credit spreads, as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

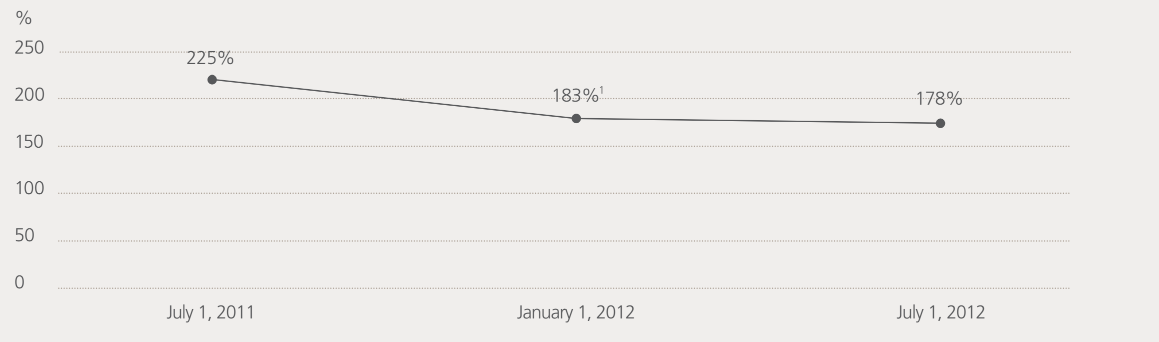
**Beginning of unaudited sections.**

## 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 %)

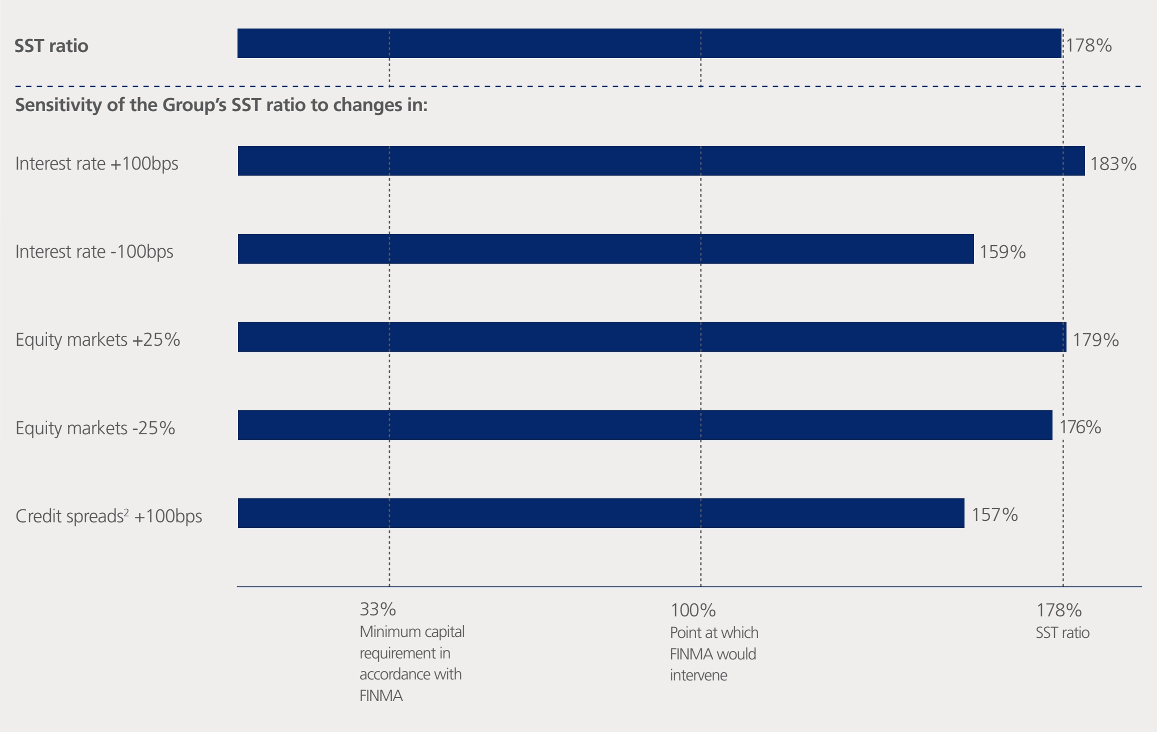



[1] After FINMA adjustment to remove USD 500m hybrid bond issued on 18 January 2012

# 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.

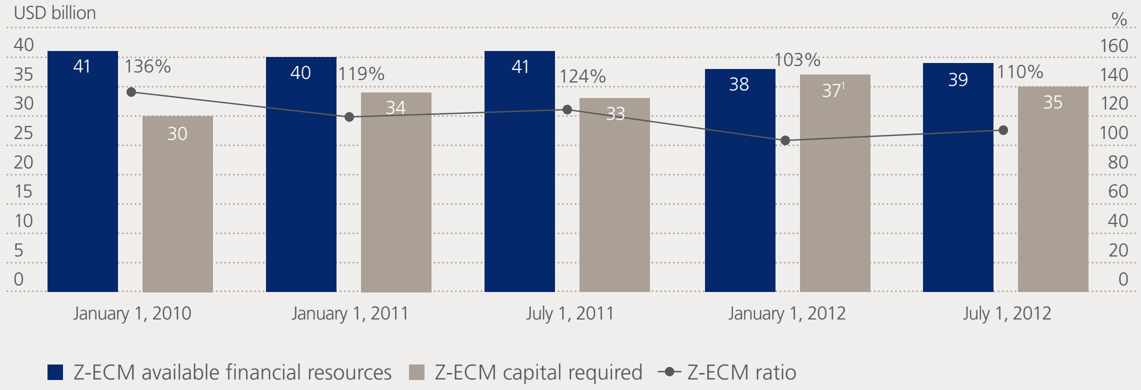
At the Group level, Zurich compares Z-ECM capital required to the Z-ECM available financial resources (Z-ECM AFR) to derive an Economic Solvency Ratio (Z-ECM ratio). Z-ECM AFR reflects financial resources available to cover policyholder liabilities in excess of their expected value. It is derived by 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

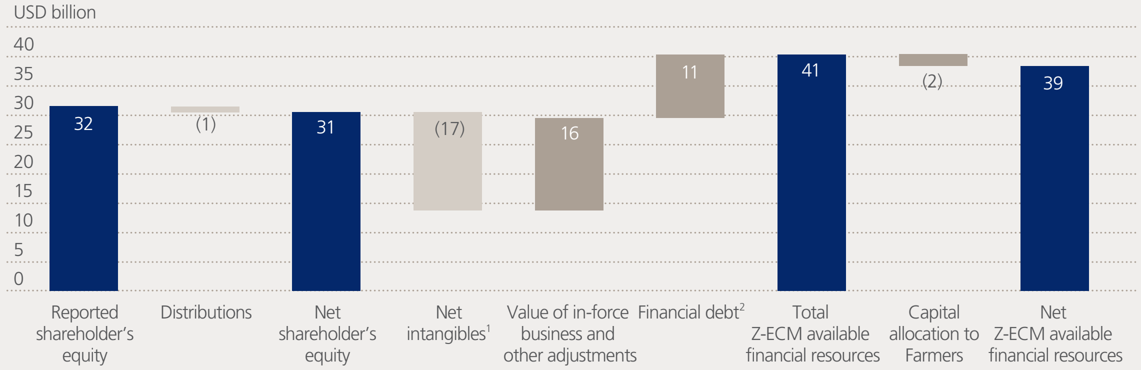



[1] The transaction with Zurich Santander and the acquisition of Zurich Insurance Malaysia Berhad is included in the total Z-ECM capital required.

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

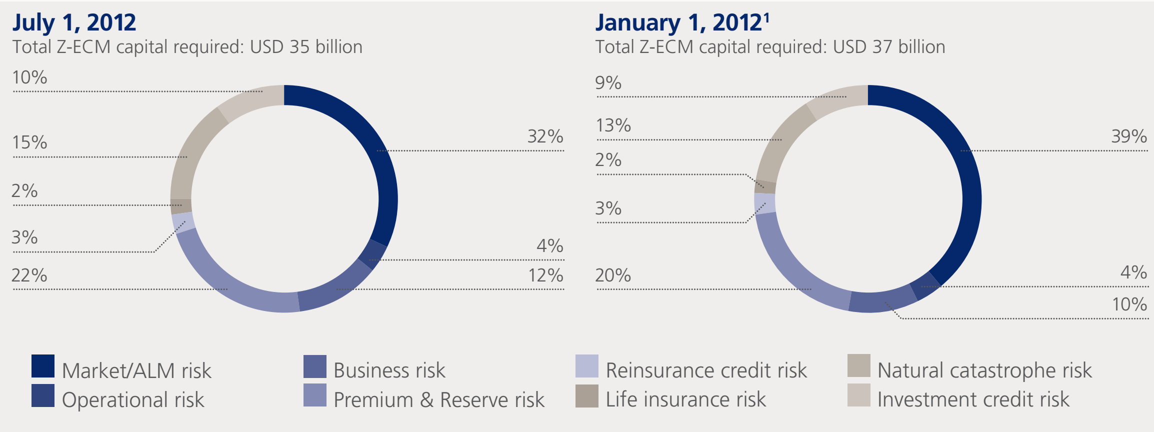



[1] Shareholders' intangible assets adjusted for taxes less deferred front-end fees and deferred tax liabilities
[2] All debt issues (senior and subordinated) excluding those classified as operational debt or maturing within one year

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.

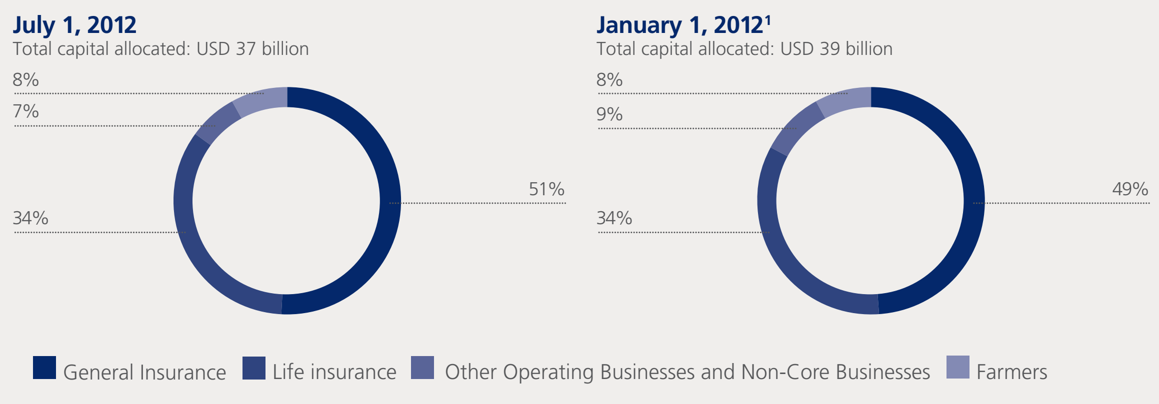
Other scenarios

# 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



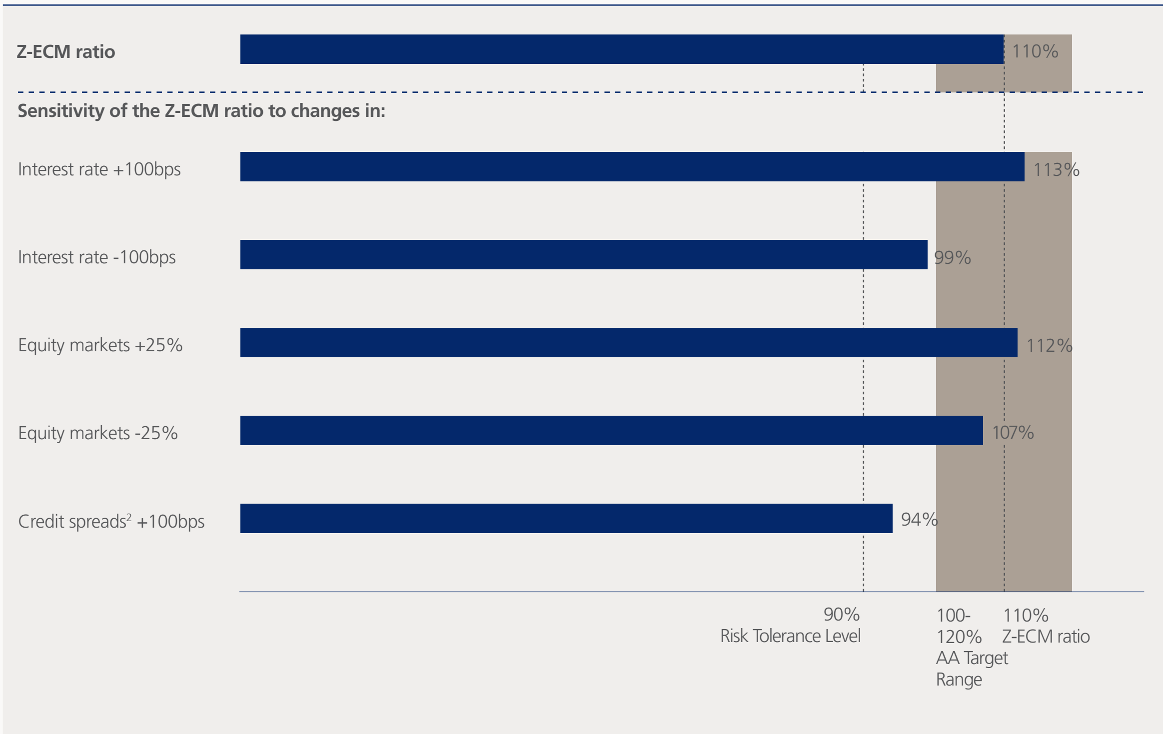

[1] The transaction with Zurich Santander and the acquisition of Zurich Insurance Malaysia Berhad is included in the total capital allocated, but is not considered in the allocation by segment.

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

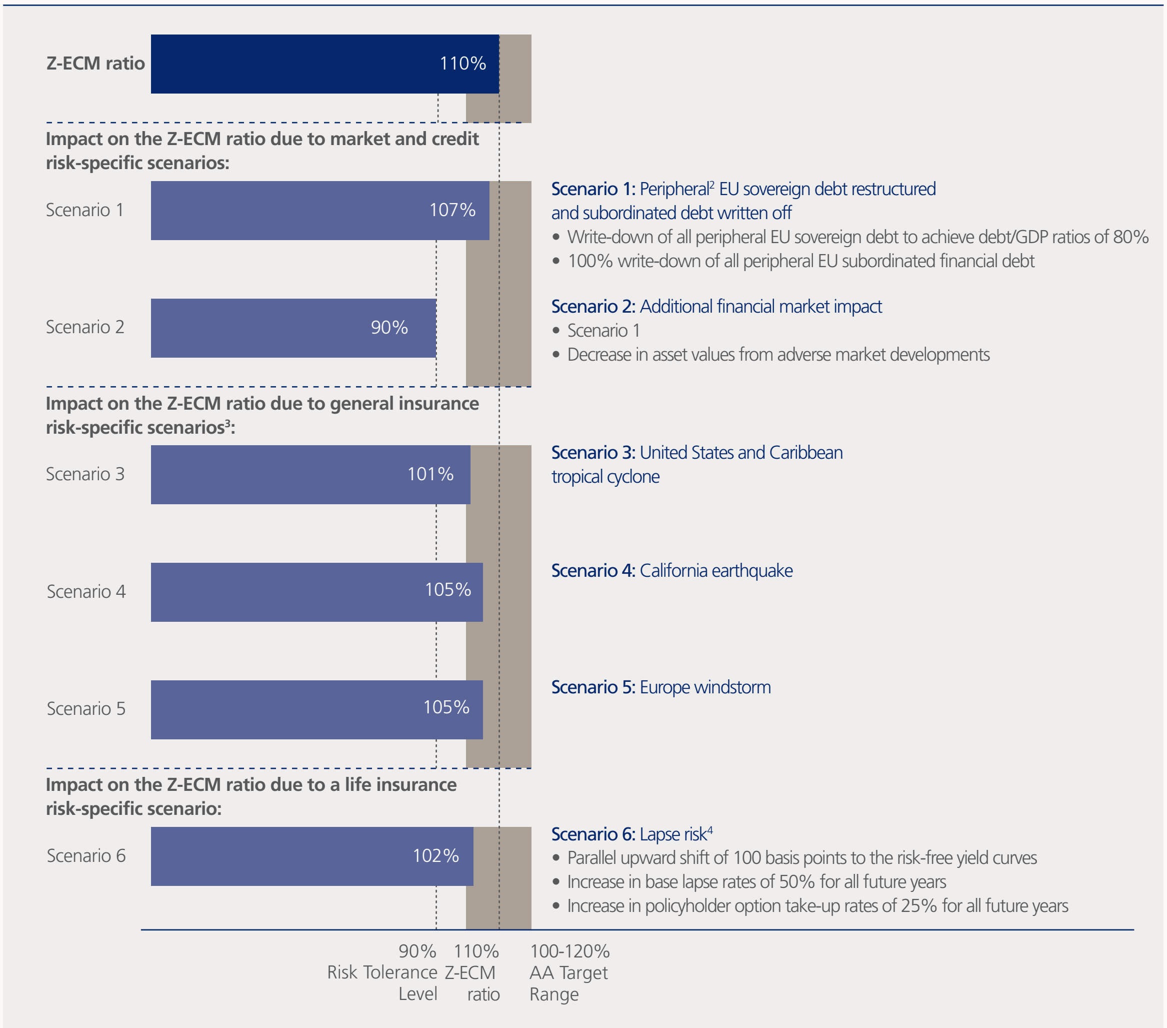



[1] Does not include sensitivities to the underlying assets and liabilities related to the transaction with Zurich Santander (for more information, see note 5 of the Consolidated financial statements). The impact of sensitivities on changes to the Z-ECM available financial resources is only approximated 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

## In this section

# Consolidated financial statements

## Contents

# 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 |

Financial information

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).

## 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.

# 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.

Financial information

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.

Table 2.1

| Standard/ Interpretation | | 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.

Table 2.2

| Standard/ Interpretation | | 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.

# Consolidated financial statements *continued*

*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,

# Consolidated financial statements *continued*

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

# Consolidated financial statements *continued*

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.

# Consolidated financial statements *continued*

### 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.

# Consolidated financial statements *continued*

## 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.

# Consolidated financial statements *continued*

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.

# Consolidated financial statements *continued*

## 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.

# Consolidated financial statements *continued*

## 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.

Investment result for total investments

Table 6.1a

| in USD millions, for the years ended December 31 | Net investment income | | Net capital gains/(losses) on investments and impairments | | Investment result | |
|---|---|---|---|---|---|---|
| | **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*

Table 6.1b

## Investment result for Group investments

| in USD millions, for the years ended December 31 | Net investment income | | Net capital gains/(losses) on investments and impairments | | Investment result | |
|---|---|---|---|---|---|---|
| | **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.

Table 6.1c

## Investment result for unit-linked contracts

| 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)** |

Table 6.2

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

| 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)** |

## Details of total investments by category

Table 6.3a

| 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** |

## Details of Group investments by category

Table 6.3b

| 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** |

# Consolidated financial statements *continued*

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.

Details of investments held for unit-linked contracts

Table 6.3c

| 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.

Debt securities maturity schedule (total investments)

Table 6.4

| in USD millions, as of December 31 | Held-to-maturity | | Available-for-sale | | Fair value through profit or loss | |
|---|---|---|---|---|---|---|
| | 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.

Available-for-sale securities

Table 6.5

| in USD millions, as of December 31 | Cost or amortized cost[1] | | Gross unrealized gains | | Gross unrealized losses | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| | **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).

# Consolidated financial statements *continued*

## 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.

# Consolidated financial statements *continued*

## 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.

Table 7.1

## 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 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)** |

# Consolidated financial statements *continued*

### Interest rate contracts

Interest rate contracts are used to hedge risks from changes in interest rates and to manage asset liability mismatches. Whenever possible the 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:

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

Table 7.2

| 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.

# Consolidated financial statements *continued*

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:

# Consolidated financial statements *continued*

- 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% | |

# Consolidated financial statements *continued*

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.

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

Table 8.4

| 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.

## Development of future life policyholders' benefits

Table 8.5

| 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.

# Consolidated financial statements *continued*

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.

## Effect of changes in assumptions for future life policyholders' benefits

Table 8.6

| 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** |

## Policyholders' contract deposits and other funds gross

Table 8.7

| 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).

## Development of policyholders' contract deposits and other funds

Table 8.8

| 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).

# Consolidated financial statements *continued*

## 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** |

# Consolidated financial statements *continued*

## 12. Deferred policy acquisition costs and deferred origination costs

Table 12.1

### Development of deferred policy acquisition costs

| 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.

Table 12.2

### Development of deferred origination costs

| 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.

# Consolidated financial statements *continued*

## 14. Farmers management fees and other related revenues

Farmers management fees and other related revenues

Table 14

| in USD millions, for the years ended December 31 | 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

Property and equipment – current period

Table 16.1

| in USD millions | Land held for own use | Buildings held for own use | Furniture and fixtures | Computer equipment | Other equipment | Total |
|---|---|---|---|---|---|---|
| Gross carrying value as of January 1, 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** |

Property and equipment – prior period

Table 16.2

| in USD millions | Land held for own use | Buildings held for own use | Furniture and fixtures | Computer equipment | Other equipment | Total |
|---|---|---|---|---|---|---|
| Gross carrying value 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.

# Consolidated financial statements *continued*

## 17. Goodwill and other intangible assets

Intangible assets – current period

Table 17.1

| in USD millions | Goodwill | PVFP | Distribution agreements | Attorney-in-fact relationships | Software | Other intangible assets | Total |
|---|---|---|---|---|---|---|---|
| Gross carrying value as of January 1, 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.

# Consolidated financial statements *continued*

## Intangible assets by segment – prior period

Table 17.4

| 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** |

# Consolidated financial statements *continued*

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.

# Consolidated financial statements *continued*

## 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 Assets | 2012 Liabilities | 2011 Assets | 2011 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.

# Consolidated financial statements *continued*

## 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.

# Consolidated financial statements *continued*

## 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.

Description and features of significant subordinated debt

Table 21.3

| 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.

# Consolidated financial statements *continued*

## Maturity schedule of outstanding debt

Table 21.4

| in USD millions, as of December 31 | 2012 Carrying value | 2012 Undiscounted cash flows | 2011 Carrying value | 2011 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.

## Interest expense on debt

Table 21.5

| 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.

# Consolidated financial statements *continued*

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.

# Consolidated financial statements *continued*

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)** |

# Consolidated financial statements *continued*

**Movement in fair value of plan assets – funded plans**

Table 23.7

| in USD millions | Defined benefit pension plans 2012 | Defined benefit pension plans 2011 | Other defined post-employment benefits 2012 | Other defined post-employment benefits 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.

**Movement in liability for funded and unfunded plans**

Table 23.8

| in USD millions | Defined benefit pension plans 2012 | Defined benefit pension plans 2011 | Other defined post-employment benefits 2012 | Other defined post-employment benefits 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.

# Consolidated financial statements *continued*

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.

# Consolidated financial statements *continued*

*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.

# Consolidated financial statements *continued*

## 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

# Consolidated financial statements *continued*

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

Table 26.2a

Fair value hierarchy – current period

| 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)** |

Table 26.2b

Fair value hierarchy – prior period

| 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 | | | Derivative assets | Derivative liabilities |
|---|---|---|---|---|---|---|---|
| | | | Trading | Designated at FV | | | |
| | Debt securities | Equity securities | Equity securities | Debt securities | Equity securities | | |
| 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 | | | Derivative assets | Derivative liabilities |
|---|---|---|---|---|---|---|---|
| | | | Trading | Designated at FV | | | |
| | Debt securities | Equity securities | Equity securities | Debt securities | Equity securities | | |
| As of January 1, 2011 | 3,394 | 2,836 | 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.

# Consolidated financial statements *continued*

## 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 | Securities at FV through profit or loss – Designated at FV – 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 | Securities at FV through profit or loss – Designated at FV – 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.

Surplus Notes

Table 28

| 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 2012 | General Insurance 2011 | Global Life 2012 | Global Life 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 2012 | Farmers 2011 | Other Operating Businesses 2012 | Other Operating Businesses 2011 | Non-Core Businesses 2012 | Non-Core Businesses 2011 | Eliminations 2012 | Eliminations 2011 | Total 2012 | Total 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*

## Reconciliation of BOP to net income after income taxes

Table 29.2

| in USD millions, for the years ended December 31 | General Insurance | | Global Life | |
|---|---|---|---|---|
| | **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 |

# 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% |

Financial information

# Consolidated financial statements *continued*

Table 29.5

## General Insurance – Revenues by region

| 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** |

Table 29.6

## General Insurance – Non-current assets by region

| 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*

## Global Life – Revenues by region

Table 29.8

| 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)** |

# Consolidated financial statements *continued*

## Non-Core Businesses – Overview

Table 29.12

| in USD millions, for the years ended December 31 | Total 2012 | Total 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<br>Audit expert<br>Auditor in charge | Stephen O'Hearn<br>Global relationship partner |

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.

## Contents



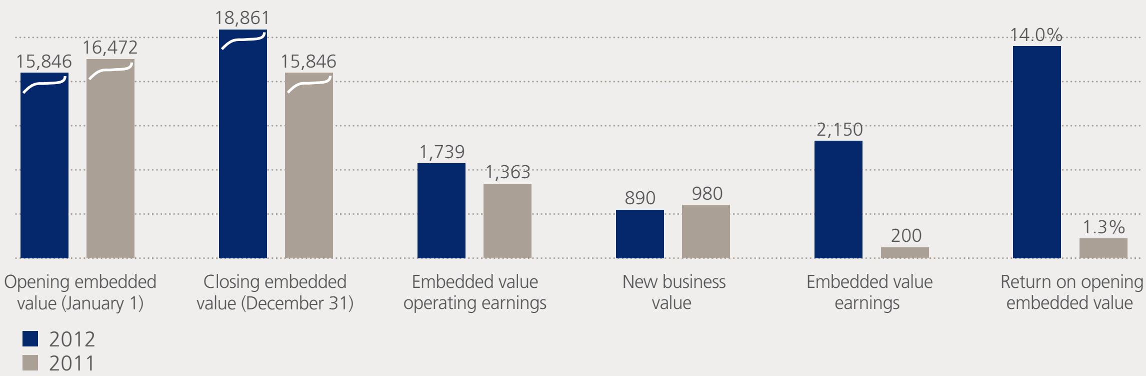
This report describes the development of the embedded value of the Zurich Insurance Group (the Group) for the year ended December 31, 2012.

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.

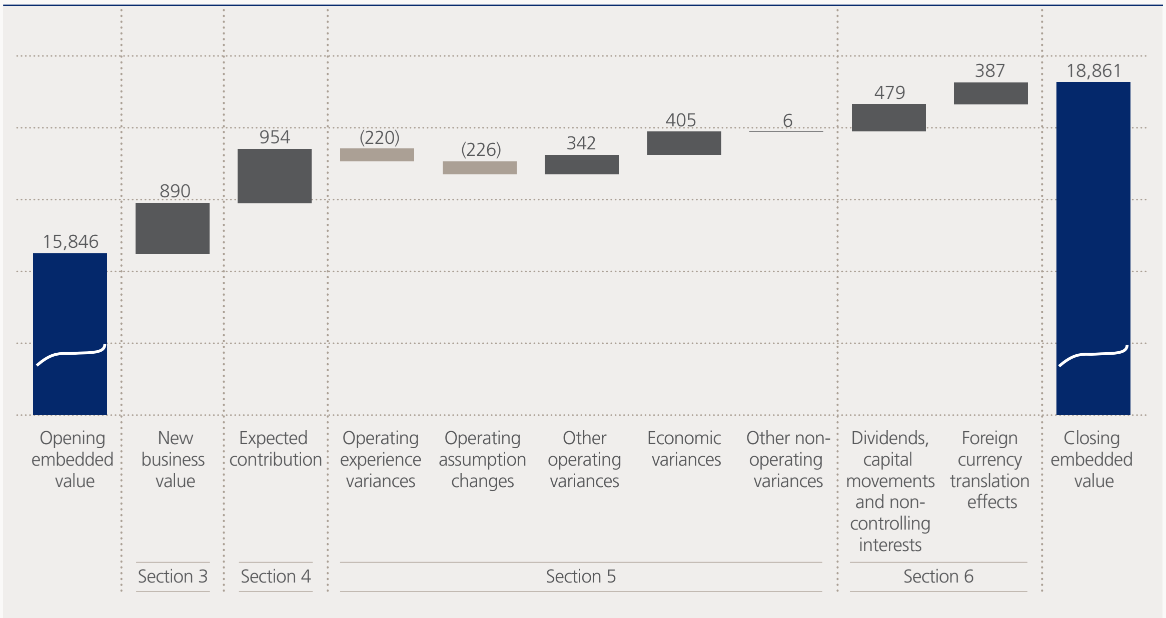
# Embedded value report *continued*

## 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

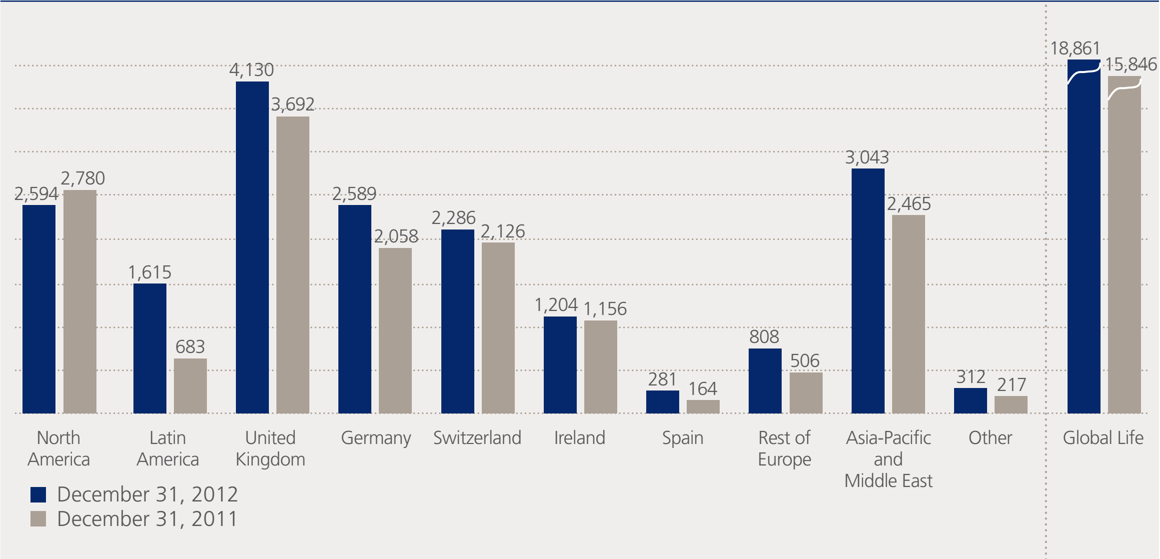



### Analysis of embedded value earnings

| 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.

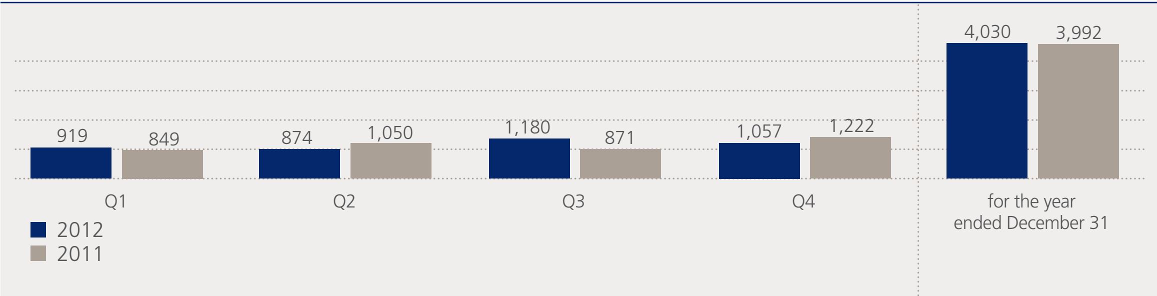
In **Asia-Pacific and Middle East,** free surplus increased mainly due to the inclusion of the ZIMB business.

In **Other,** free surplus decreased by USD 4 million.

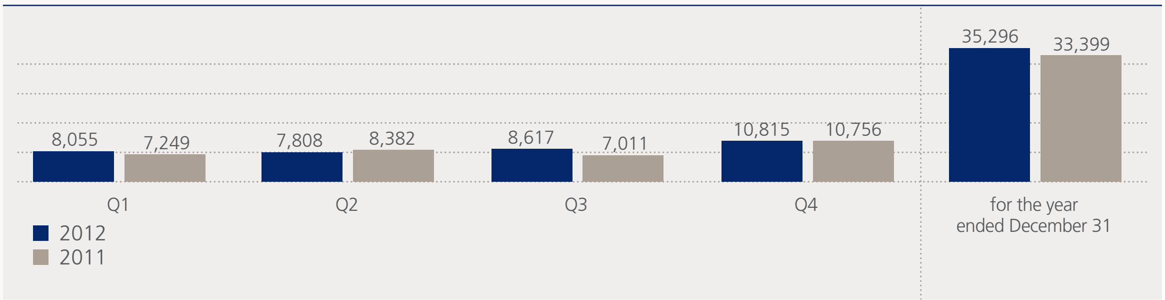
# 3. New business

## Global Life

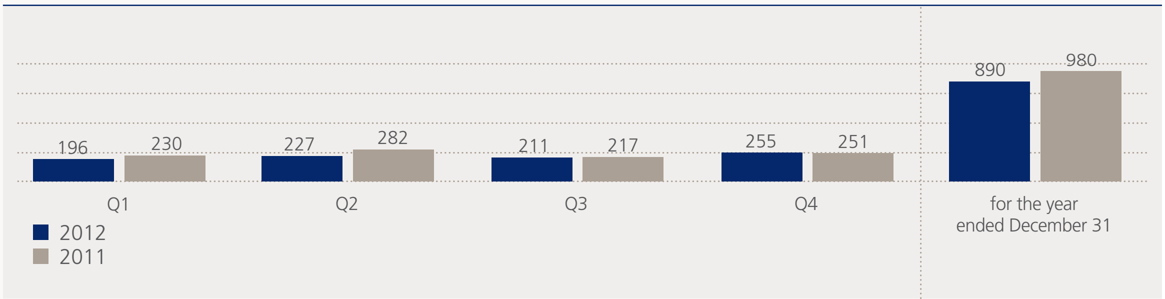
### Annual premium equivalent (APE)
in USD millions




### Present value of new business premiums (PVNBP)
in USD millions

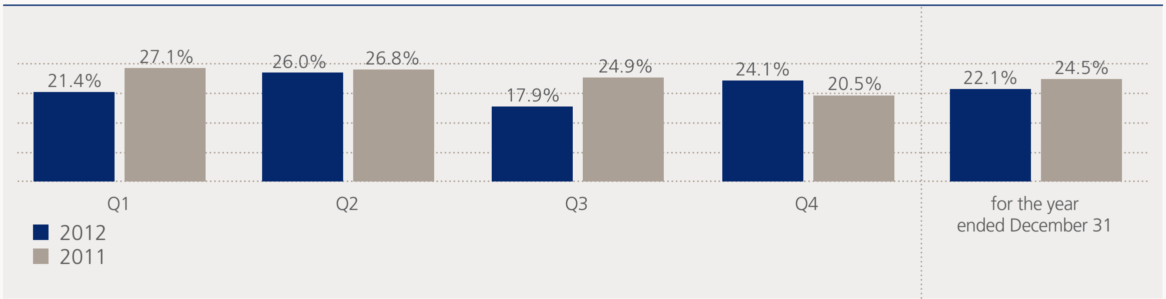



### New business value
in USD millions

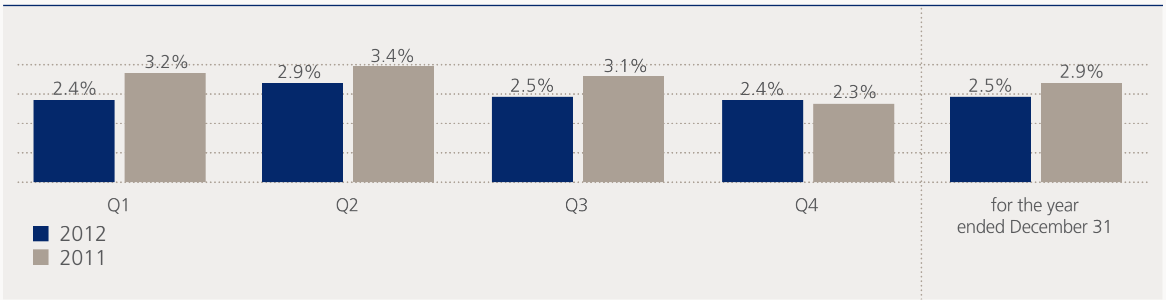


# Embedded value report *continued*

New business margin (%APE)
in percent




New business margin (%PVNBP)
in percent



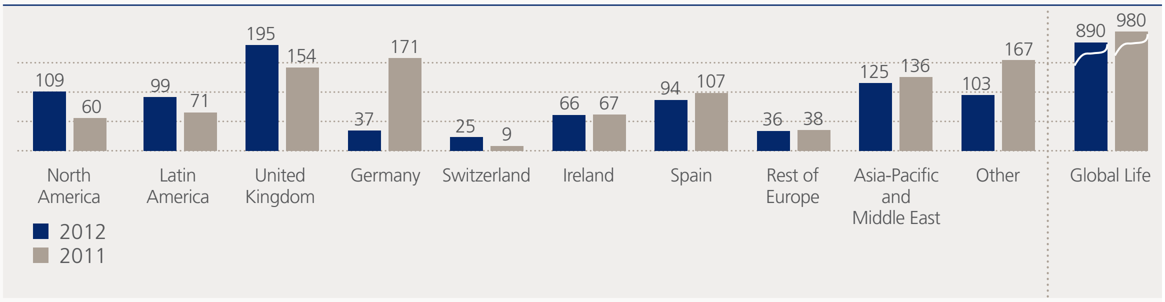

## New business by quarter

| 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

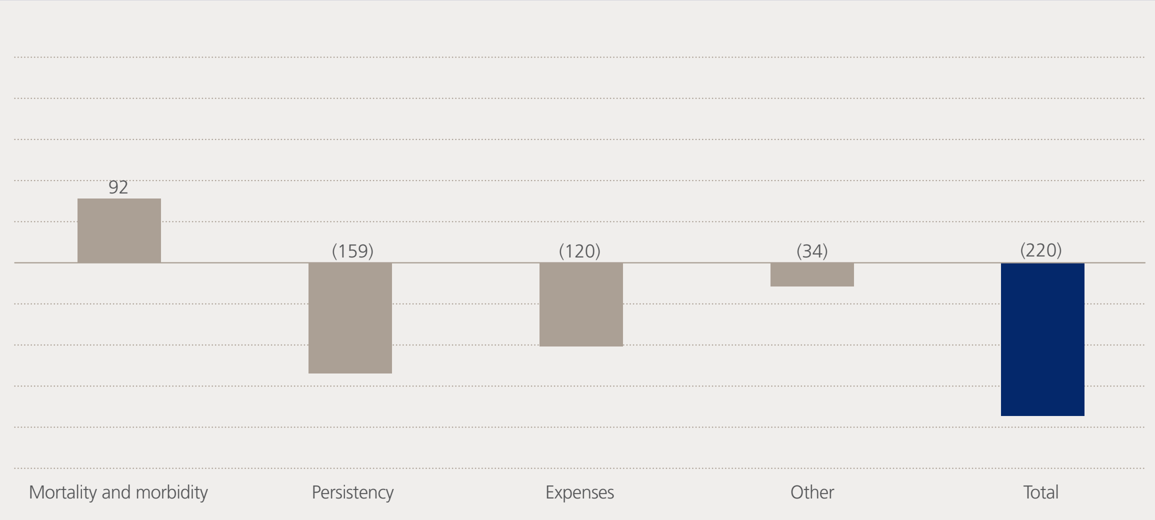
Operating, economic and other non-operating variances

| 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



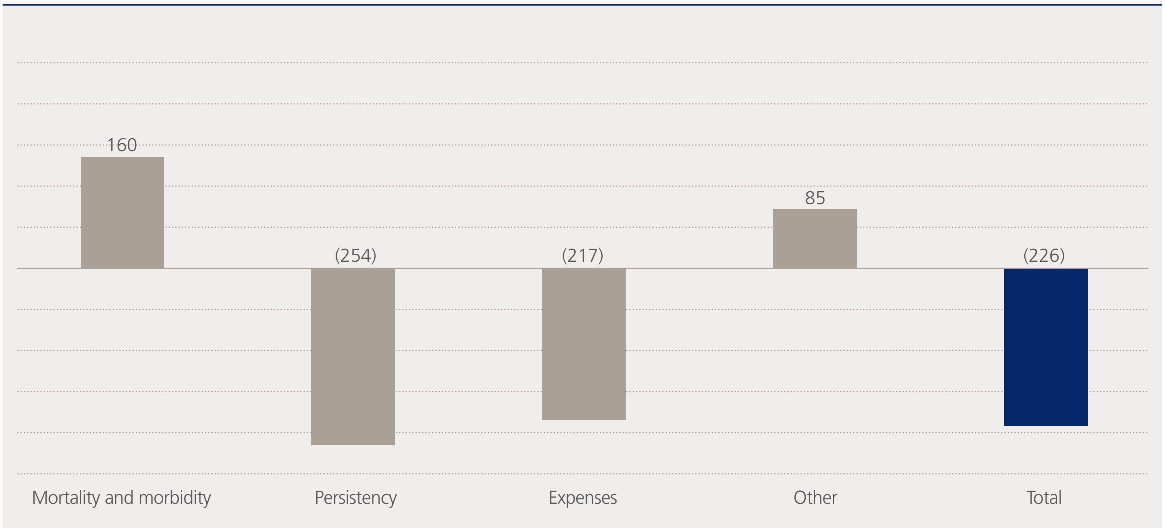

- **Mortality and morbidity** experience increased embedded value by USD 92 million. The main positive experience variances were USD 33 million in the UK and USD 34 million in Latin America.
- **Persistency** experience decreased embedded value by USD 159 million. The difficult market conditions in Ireland 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.

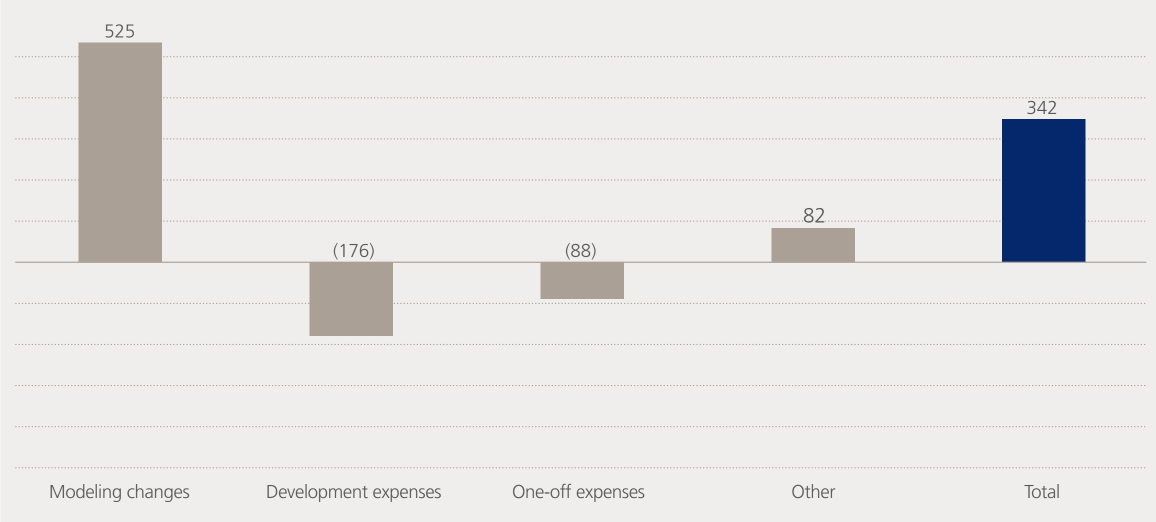
- **Other** assumption changes increased embedded value by USD 85 million, mainly as a result of a restructuring of reinsurance in the UK and increased fund management charges in Asia-Pacific and Middle East.

# 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% |

Financial information

# 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

| | | | |
|---|---|---|---|
| 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 Carrying value[1] | 2012 Voting rights in % | 2011 Carrying value[1] | 2011 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** |

# 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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# Informations pour les actionnaires

**Dans cette section**

# Informations pour les actionnaires

## Données relatives aux actions nominatives de Zurich Insurance Group SA

### Indicateurs clés

| au 31 décembre | **2012** | 2011 |
|---|---|---|
| Nombre d'actions émises | 148 300 123 | 147 385 822 |
| Nombre d'actions donnant droit à dividende[1] | 148 300 123 | 147 385 822 |
| Capitalisation boursière (en millions de CHF, cours de fin de période) | 36 096 | 31 319 |
| Capital autorisé, nombre d'actions | 10 000 000 | 10 000 000 |
| Capital conditionnel, nombre d'actions | 12 995 136 | 13 909 437 |

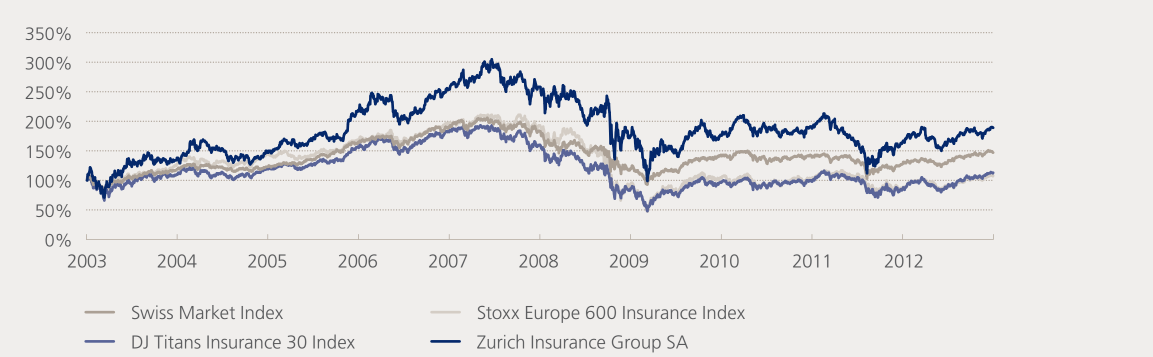
[1] Les propres actions ne donnent pas droit à dividende.

### Données par action

| en CHF | **2012** | 2011 |
|---|---|---|
| Dividende brut | 17.00[1] | 17.00 |
| Bénéfice de base par action | 24.79 | 22.69 |
| Bénéfice dilué par action | 24.66 | 22.52 |
| Valeur comptable par action, au 31 décembre | 214.79 | 202.17 |
| Valeur nominale par action | 0.10 | 0.10 |
| Cours de fin de période | 243.40 | 212.50 |
| Cours le plus haut de la période | 245.00 | 274.50 |
| Cours le plus bas de la période | 193.10 | 144.90 |

[1] Dividende proposé, soumis à l'approbation des actionnaires lors de l'Assemblée générale ordinaire 2013; la date de paiement est prévue dès le 11 avril 2013. Le dividende sera payé à partir de la réserve d'apport en capital, et exonéré de l'impôt anticipé suisse.

### Performance de l'action Zurich (indexée) sur les dix dernières années




Source: Datastream

### Dividende/historique de paiement

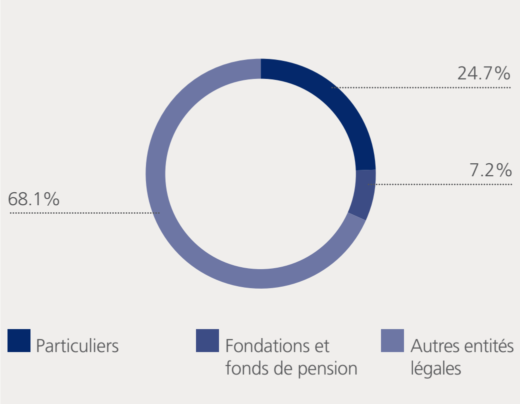
| | Exercice comptable | Montant brut par action nominative, en CHF | Date de paiement dès le |
|---|---|---|---|
| Dividende | 2012 | 17.00[1] | 11 avril 2013[1] |
| Dividende | 2011 | 17.00 | 5 avril 2012 |
| Dividende | 2010 | 17.00 | 7 avril 2011 |
| Dividende | 2009 | 16.00 | 8 avril 2010 |
| Dividende | 2008 | 11.00 | 7 avril 2009 |
| Dividende | 2007 | 15.00 | 8 avril 2008 |
| Dividende | 2006 | 11.00 | 10 avril 2007 |
| Dividende/réduction de la valeur nominale | 2005 | 7.00 | 4 juillet 2006 |
| Réduction de la valeur nominale | 2004 | 4.00 | 4 juillet 2005 |
| Réduction de la valeur nominale | 2003 | 2.50 | 1er juillet 2004 |
| Réduction de la valeur nominale | 2002 | 1.00 | 15 juillet 2003 |

[1] Dividende proposé, soumis à l'approbation des actionnaires lors de l'Assemblée générale ordinaire 2013; la date de paiement est prévue dès le 11 avril 2013.

## Négoce des actions

Les actions de Zurich Insurance Group SA sont cotées à la SIX Swiss Exchange et elles sont négociées sur le segment Blue Chip de la SIX Swiss Exchange; symbole ticker: ZURN; le numéro de valeur (Valorennummer) suisse est le 1107539. Les transactions sur les actions de Zurich Insurance Group SA sur le segment Blue Chip sont libellées en francs suisses.

## Actionnaires de Zurich Insurance Group SA inscrits au registre des actions




Les actions inscrites au registre des actions au 31 décembre 2012 étaient détenues par 124 847 actionnaires, dont 119 238 étaient des particuliers avec 24,7% des actions (soit 15,3% de toutes les actions en circulation), 2 051 étaient des fondations et des fonds de pension avec 7,2% des actions (soit 4,5% de toutes les actions en circulation) et 3 594 étaient d'autres entités légales avec 68,1% des actions (soit 42,3% de toutes les actions en circulation).

## Principaux actionnaires

Au 31 décembre 2012, à la connaissance de Zurich Insurance Group SA, aucune personne ou aucun établissement autre que BlackRock, Inc., New York et Norges Bank, Oslo, ne détenait, directement ou indirectement, de participations en tant qu'ayant droit économique d'actions, de droits d'option et/ou de droits de conversion relatifs à des actions de Zurich Insurance Group SA, représentant 3% ou plus des actions émises. Les annonces relatives à ces notifications peuvent être trouvées via le moteur de recherche sur la plateforme de l'instance pour la publicité des participations de la SIX: http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_fr.html.

Zurich Insurance Group SA n'a pas connaissance de personnes ou d'établissements qui, en date du 31 décembre 2012, directement ou indirectement, seuls ou avec d'autres, exerçaient un contrôle ou étaient partie à un accord quelconque visant à exercer un contrôle sur Zurich Insurance Group SA.

## Service de dépôt de titres

Zurich offre à ses actionnaires la possibilité de déposer gratuitement des actions de Zurich Insurance Group SA chez SIX SAG SA, en Suisse. La réglementation relative au dépôt des titres, ainsi que le formulaire de demande d'ouverture d'un compte de dépôt de titres, peuvent être téléchargés sur notre site Internet: www.zurich.com/investors/shareholderinformation

# Informations pour les actionnaires *suite*

## Calendrier financier

### Assemblée générale ordinaire 2013
4 avril 2013

### Date ex-dividende
8 avril 2013

### Dividende – jour de référence
10 avril 2013

### Paiement du dividende dès le
11 avril 2013

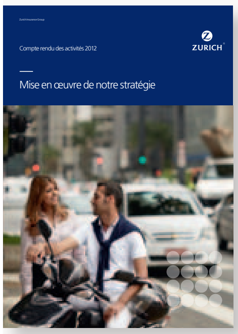
### Résultats pour les trois mois arrêtés au 31 mars 2013
16 mai 2013

### Résultats semestriels 2013
15 août 2013

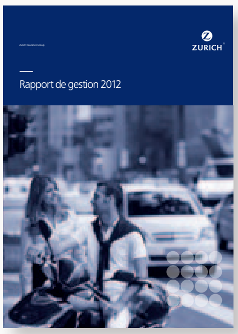
### Résultats pour les neuf mois arrêtés au 30 septembre 2013
14 novembre 2013

## Publications

### Compte rendu des activités 2012
Le Compte rendu des activités contient des informations sur les activités de Zurich, sa stratégie et sa performance au cours de l'année 2012. Il est disponible en anglais, en allemand et en français.




### Rapport de gestion 2012
Le Rapport de gestion contient des informations détaillées sur la performance financière, la structure d'entreprise, les organes exécutifs de Zurich, ainsi que sur la gestion des risques, la gouvernance d'entreprise et les rémunérations. Il est disponible en anglais, en allemand et en français, les données financières n'étant disponibles qu'en anglais.




### www.zurich.com
Les fichiers pdf des deux rapports sont disponibles sur www.zurich.com. Des informations pratiques sur la gestion des risques peuvent être consultées sous la rubrique Insight section: www.zurich.com/insight.

# Contacts

Pour plus d'informations, veuillez contacter les bureaux ci-dessous ou consulter notre site internet: www.zurich.com.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Fax: +41 (0)58 499 61 91


## American Depositary Receipts
Zurich Insurance Group SA dispose d'un programme d'American Depositary Receipt avec The Bank of New York Mellon (BNYM). Pour toute information sur un compte ADR, veuillez appeler le service pour les actionnaires de BNY Mellon depuis les États-Unis au +1-888-BNY-ADRs ou en dehors des États-Unis, au +1-201-680-6825, ou par e-mail à shrrelations@bnymellon.com. Des informations générales sur le programme ADR de la société peuvent être obtenues auprès de The Bank of New York Mellon sur 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.

## Déclaration de déni et de précaution

Certaines des déclarations contenues dans ce document se réfèrent à l'avenir, y compris, mais sans se limiter à elles seules, des déclarations prospectives faisant état d'événements, de tendances, de plans ou d'objectifs futurs de Zurich Insurance Group SA ou de Zurich Insurance Group (le Groupe). Les déclarations concernant l'avenir comprennent des déclarations relatives au bénéfice escompté du Groupe, à des objectifs de rendement des fonds propres, aux dépenses, aux conditions tarifaires, à la politique en matière de dividendes et aux résultats des sinistres de même que des déclarations concernant la compréhension des conditions économiques, des marchés financiers et du secteur de l'assurance, ainsi que des évolutions escomptées du Groupe. Aucune fiabilité indue ne doit être accordée à de telles déclarations, puisque, de par leur nature, elles sont sujettes à des risques ainsi qu'à des incertitudes – connus ou inconnus – et qu'elles peuvent être influencées par d'autres facteurs pouvant modifier substantiellement les résultats réels ainsi que les plans et objectifs de Zurich Insurance Group SA ou du Groupe, par rapport à ce qui a été exprimé ou sous-entendu dans les déclarations portant sur l'avenir (ou dans les résultats antérieurs). Des facteurs tels que (i) les conditions économiques générales et les facteurs liés à la concurrence, particulièrement sur les marchés clés; (ii) le risque d'un ralentissement économique général; (iii) la performance des marchés financiers; (iv) les niveaux des taux d'intérêt et ceux des taux de change des devises étrangères; (v) la fréquence, la gravité et l'évolution des sinistres assurés; (vi) les expériences en termes de mortalité et de morbidité; (vii) les taux de renouvellements et d'annulations de polices; et (viii) les modifications de dispositions légales et de réglementations, ainsi que des politiques des autorités de surveillance peuvent avoir une influence directe tant sur les résultats des opérations de Zurich Insurance Group SA et de son Groupe que sur l'atteinte de ses objectifs. Zurich Insurance Group SA n'assume aucune obligation de mise à jour publique ou de révision de ses déclarations se référant à l'avenir, qu'il s'agisse de révéler de nouvelles informations, des événements futurs, des circonstances ou d'autres éléments, quels qu'ils soient.

Toute référence faite aux «Farmers Exchanges» désigne Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange ainsi que leurs filiales et sociétés affiliées. Les trois Exchanges sont des compagnies d'assurances organisées de façon coopérative (interinsurance exchanges) domiciliées en Californie, détenues par leurs assurés et dont la gouvernance est supervisée par leurs Conseils des gouverneurs (Board of Governors). Farmers Group, Inc. et ses filiales sont fondés de pouvoir par les Farmers Exchanges et, à ce titre, elles fournissent aux Farmers Exchanges certains services administratifs et de gestion sans rapport avec les déclarations de sinistre. Ni Farmers Group, Inc., ni ses sociétés-mères Zurich Compagnie d'Assurances SA et Zurich Insurance Group SA, ne détiennent de participation au capital des Farmers Exchanges. Les informations financières sur les Farmers Exchanges appartiennent aux Farmers Exchanges mais elles sont fournies pour permettre de mieux comprendre la performance de Farmers Group, Inc. et de Farmers Reinsurance Company.

Il faut noter que la performance passée ne constitue nullement une indication fiable quant à la performance future.

Les personnes qui souhaitent un conseil doivent consulter un conseiller indépendant.

Cette communication ne constitue ni une offre ni une invitation à vendre ou à acheter des titres dans une quelconque juridiction.

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

Le Rapport de gestion est publié en anglais, en allemand et en français. En cas de divergences entre la présente traduction et la version originale anglaise, cette dernière fait foi.

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Neidhart + Schön AG (www.nsgroup.ch.), une entreprise certifiée ISO 14001, a imprimé ce document à la fin février 2013 en appliquant le processus d'impression climatiquement neutre de ClimatePartner, qui a recours à l'électricité verte.

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