Consolidated Financial Statements

Contents

I

1. Consolidated income statements 133
2. Consolidated statements of comprehensive income 134
3. Consolidated balance sheets 136
4. Consolidated statements of cash flows 138
5. Consolidated statements of changes in equity 140

II

1. Basis of presentation 142
2. Implementation of new accounting standards and amendments to published accounting standards 147
3. Summary of significant accounting policies 149
4. Critical accounting judgements and estimates 166
5. Acquisitions and divestments 171
6. Investments 175
7. Derivative financial instruments and hedge accounting 183
8. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts 187
9. Liabilities for investment contracts with and without discretionary participation features (DPF) 194
10. Equity component relating to contracts with DPF 194
11. Gross and ceded insurance revenues and expenses 195
12. Deferred policy aquisition costs and deferred origination costs 196
13. Administrative and other operating expenses 196
14. Farmers management fees and other related revenues 197
15. Receivables 197
16. Mortgage loans given as collateral and collateralized loans 198
17. Property and equipment 199
18. Goodwill and other intangible assets 200
19. Other assets 202
20. Other liabilities 202
21. Income taxes 204
22. Debt 208
23. Shareholders' equity 213
24. Employee benefits 217
25. Share-based compensation and cash incentive plans 222
26. Contigent liabilities, contractual commitments and financial guarantees 226
27. Fair value of financial assets and financial liabilities 229
28. Related party transactions 233
29. Farmers Exchanges 235
30. Segment information 238

III

1. Report of Group Auditors 258

Consolidated income statements

In USD millions, for the years ended December 31	Notes	2009	2008
Revenues			
Gross written premiums and policy fees		53,817	51,894
Less premiums ceded to reinsurers		(5,844)	(6,226)
Net written premiums and policy fees		47,973	45,667
Net change in reserves for unearned premiums	11	(746)	(1,560)
Net earned premiums and policy fees		47,227	44,107
Farmers management fees and other related revenues	14	2,690	2,458
Net investment result on Group investments	6	6,082	5,805
Net investment income on Group investments		7,505	8,698
Net capital gains/(losses) and impairments on Group investments		(1,423)	(2,893)
Net investment result on unit-linked investments	6	12,475	(21,731)
Net gain/(loss) on divestments of businesses	5	(5)	16
Other income		1,802	1,693
Total revenues		70,272	32,349
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance[1]	11	39,522	31,387
Less ceded insurance benefits and losses[1]	11	(3,261)	3,425
Insurance benefits and losses, net of reinsurance	11	36,261	34,811
Policyholder dividends and participation in profits, net of reinsurance	11	12,859	(21,514)
Underwriting and policy acquisition costs, net of reinsurance	11	8,254	8,287
Administrative and other operating expense	13	7,248	6,729
Interest expense on debt	22	586	599
Interest credited to policyholders and other interest		533	773
Total benefits, losses and expenses		65,741	29,685
Net income before income taxes		4,531	2,663
Income tax expense	21	(1,295)	452
attributable to policyholders	21	(387)	1,184
attributable to shareholders	21	(908)	(732)
Net income after taxes		**3,236**	3,116
attributable to non-controlling interests		21	77
attributable to shareholders		3,215	3,039

in USD			
Basic earnings per share	23	22.51	21.80
Diluted earnings per share	23	22.35	21.63
in CHF			
Basic earnings per share	23	24.39	23.53
Diluted earnings per share	23	24.21	23.35

[1] Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio reinsured in 2007 were transferred to the reinsurer. This transaction had no net impact on the consolidated income statement in 2008, but impacted each of these line items by USD 7.0 billion.

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

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
2008		
Comprehensive income for the period	3,039	(3,159)
Details of movements during the period		
Change (before reclassification, tax and currency translation effects and after allocation to policyholders)		(6,317)
Reclassification to income statement (before tax and currency translation effects and after allocation to policyholders)		2,089
Deferred income tax (before currency translation effects)		947
Foreign currency translation effects		121
2009		
Comprehensive income for the period	3,215	3,292
Details of movements during the period		
Change (before reclassification, tax and currency translation effects and after allocation to policyholders)		3,395
Reclassification to income statement (before tax and currency translation effects and after allocation to policyholders)		1,014
Deferred income tax (before currency translation effects)		(1,110)
Foreign currency translation effects		(7)

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

Cash flow hedges	Cumulative translation adjustment	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
87	(2,725)	16	(1,115)	(6,897)	(3,858)	6	(3,852)
60	(2,707)	21	(1,690)	(10,635)			
54	(18)	–	–	2,125			
(20)	–	(5)	461	1,383			
(7)	–	–	114	228			
7	944	(1)	171	4,413	7,628	85	7,714
119	944	(2)	288	4,745			
(96)	–	–	–	918			
(16)	–	–	(63)	(1,189)			
–	–	–	(53)	(60)			

Consolidated balance sheets

Assets

in USD millions, as of December 31	Notes	2009	2008	Restated 2007
Investments				
Total Group investments		196,258	179,570	193,600
Cash and cash equivalents		11,631	12,428	14,111
Equity securities		12,450	14,303	20,496
Debt securities		136,344	118,287	125,535
Real estate held for investment		7,789	7,524	7,563
Mortgage loans		12,736	12,820	12,718
Other loans		15,077	13,988	12,941
Equity method accounted investments		232	220	238
Investments for unit-linked contracts		99,167	78,203	122,092
Total investments	6	295,425	257,773	315,693
Reinsurers' share of reserves for insurance contracts[1]	8	18,627	18,595	26,970
Deposits made under assumed reinsurance contracts		3,861	2,397	1,359
Deferred policy acquisition costs	12	16,181	14,323	14,941
Deferred origination costs	12	856	770	1,003
Accrued investment income		2,744	2,429	2,593
Receivables	15	13,182	13,229	12,846
Other assets	19	3,327	4,095	3,405
Mortgage loans given as collateral	16	1,102	1,233	2,243
Deferred tax assets	21	2,257	2,901	1,682
Assets held for sale[2]		67	–	–
Property and equipment	17	1,942	1,889	1,972
Goodwill	18	2,297	1,677	1,553
Other intangible assets	18	7,044	6,633	3,083
Total assets		**368,914**	**327,944**	**389,342**

[1] Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio ceded in 2007 for an amount of USD 7.1 billion were transferred to the reinsurer, resulting in a reduction of reinsurers' share of reserves for insurance contracts.

[2] As of December 31, 2009, assets held for sale include land and buildings held for own use reclassified in March and December 2009 as assets held for sale.

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

Liabilities and equity

in USD millions, as of December 31	Notes	2009	2008	Restated 2007
Liabilities				
Reserve for premium refunds		649	620	625
Liabilities for investment contracts	9	46,124	35,979	54,485
Deposits received under ceded reinsurance contracts		1,558	1,619	1,739
Deferred front-end fees		5,543	4,695	5,791
Reserves for insurance contracts[1]	8	241,412	222,179	252,740
Obligations to repurchase securities		3,976	3,608	5,370
Accrued liabilities		2,839	2,820	2,755
Other liabilities	20	17,485	16,944	20,257
Collateralized loans	16	1,102	1,233	2,243
Deferred tax liabilities	21	4,464	3,485	4,057
Debt related to capital markets and banking activities	22	839	2,527	1,663
Senior and subordinated debt	22	11,444	8,455	8,300
Total liabilities		**337,435**	**304,163**	**360,023**
Equity				
Share capital	23	10	10	10
Additional paid-in capital	23	11,400	10,131	10,289
Net unrealized gains/(losses) on available-for-sale investments		334	(2,957)	202
Cash flow hedges		(9)	(16)	(103)
Cumulative translation adjustment		(396)	(1,341)	1,385
Revaluation reserve		98	99	83
Retained earnings		17,680	15,616	16,406
Common shareholders’ equity		29,117	21,542	28,273
Preferred securities	23	561	561	671
Shareholders’ equity		29,678	22,103	28,945
Non-controlling interests		1,800	1,678	374
Total equity		**31,478**	**23,781**	**29,318**
Total liabilities and equity		**368,914**	**327,944**	**389,342**

[1] Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio ceded in 2007 for an amount of USD 7.1 billion were transferred to the reinsurer, resulting in a reduction of reserves for insurance contracts.

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

Consolidated statements of cash flows

in USD millions, for the years ended December 31	**2009**	2008
Cash flows from operating activities		
Net income attributable to shareholders	3,215	3,039
Adjustments for:		
Net (gain)/loss on divestments of businesses	5	(16)
Income from equity method accounted investments	(4)	(8)
Depreciation, amortization and impairments of fixed and intangible assets	892	654
Other non-cash items	554	1,377
Underwriting activities:	13,102	(24,588)
Reserves for insurance contracts, gross[1]	*8,882*	*(19,773)*
Reinsurers' share of reserves for insurance contracts[1]	*566*	*7,056*
Liabilities for investment contracts	*6,674*	*(9,486)*
Deferred policy acquisition costs	*(1,455)*	*(975)*
Deferred origination costs	*(16)*	*8*
Deposits made under assumed reinsurance contracts	*(1,453)*	*(1,308)*
Deposits received under ceded reinsurance contracts	*(97)*	*(110)*
Investments:	(19,844)	30,690
Net capital (gains)/losses on total investments and impairments	*(9,419)*	*27,808*
Net change in trading securities	*214*	*2,042*
Sales and maturities		
Debt securities	*209,776*	*80,270*
Equity securities	*49,510*	*66,830*
Other	*48,457*	*30,311*
Purchases		
Debt securities	*(218,147)*	*(82,002)*
Equity securities	*(50,007)*	*(63,314)*
Other	*(50,227)*	*(31,256)*
Proceeds from sale and repurchase agreements	(14)	(443)
Movements in receivables and payables	(60)	(3,173)
Net changes in debt for capital markets and banking activities	(1,745)	1,035
Net changes in other operational assets and liabilities	974	509
Deferred income tax, net	453	(1,725)
Net cash (used in)/provided by operating activities	(2,470)	7,350

[1] Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio ceded in 2007 for an amount of USD 7.1 billion were transferred to the reinsurer, resulting in a reduction of both the reinsurers' share of reserves for insurance contracts and gross reserves for insurance contracts.

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	2009	2008
Cash flows from investing activities		
Sales of property and equipment	86	309
Purchase of property and equipment	(359)	(444)
Investments in equity method accounted investments, net	6	11
Acquisitions of companies, net of cash acquired	(307)	(1,319)
Divestments of companies, net of cash balances	(10)	(6)
Dividends from equity method accounted investments	5	5
Net cash used in investing activities	(581)	(1,443)
Cash flows from financing activities		
Dividends paid	(1,426)	(2,104)
Issuance of share capital	929	–
Net movement in treasury shares	367	(812)
Redemption of preferred securities and repayments to non-controlling interests	–	(124)
Issuance of debt	3,475	2,420
Repayments of debt outstanding	(898)	(1,930)
Net cash provided by/(used in) financing activities	2,448	(2,551)
Foreign currency translation effects on cash and cash equivalents	870	(1,896)
Change in cash and cash equivalents excluding change in cash held as collateral for securities lending[1]	267	1,460
Cash and cash equivalents as of January 1, excluding cash held as collateral for securities lending	16,711	15,251
Cash and cash equivalents as of December 31, excluding cash held as collateral for securities lending	**16,978**	**16,711**
Change in cash held as collateral for securities lending	316	(1,700)
Cash and cash equivalents as of January 1, including cash held as collateral for securities lending	16,888	17,128
Cash and cash equivalents as of December 31, including cash held as collateral for securities lending	**17,471**	**16,888**
of which:		
– cash and cash equivalents – Group Investments	11,631	12,428
– cash and cash equivalents – unit linked	5,840	4,460
Other supplementary cash flow disclosures		
Other interest income received	7,146	8,831
Dividend income received	1,644	2,943
Other interest expense paid	(1,146)	(1,478)
Income tax paid	(1,019)	(1,253)

As of December 31, 2009 and 2008, cash and cash equivalents held to meet local regulatory requirements were USD 1,715 million and USD 1,131 million, respectively.

Cash and cash equivalents

in USD millions, as of December 31	2009	2008
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	7,167	7,829
Cash equivalents	9,811	8,882
Cash held as collateral for securities lending	493	177
Total	**17,471**	**16,888**

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

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, 2007	10	10,289	202
Issuance of share capital	–	1	–
Dividends to shareholders	–	–	–
Redemption of preferred shares	–	(14)	–
Share-based payment transactions	–	48	–
Treasury share transactions[3]	–	(194)	–
Total comprehensive income for the year, net of tax	–	–	(3,159)
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*(3,159)*
Cash flow hedges	–	–	–
Cumulative translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization and non-controlling interests	–	–	–
Balance as of December 31, 2008	10	10,131	(2,957)
Balance as of December 31, 2008	10	10,131	(2,957)
Issuance of share capital[1, 2]	–	929	–
Dividends to shareholders	–	–	–
Share-based payment transactions	–	59	–
Treasury share transactions[3]	–	282	–
Total comprehensive income for the year, net of tax	–	–	3,292
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*3,292*
Cash flow hedges	–	–	–
Cumulative translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization and non-controlling interests	–	–	–
Balance as of December 31, 2009	**10**	**11,400**	**334**

[1] Includes all transaction costs amounting to USD 41 million deducted from the proceeds related to the issuance of USD 1.2 billion (CHF 1.3 billion) of capital through the accelerated book building transaction (see note 23).
[2] The number of common shares issued as of December 31, 2009 was 147,473,068 (December 31, 2008: 142,122,620, December 31, 2007: 145,546,820).
[3] The number of treasury shares deducted from equity amounted to 3,269,338 and 5,219,803 as of December 31, 2009 and December 31, 2008, respectively (see note 23).

The notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

	Cash flow hedges	Cumulative translation adjustment	Revaluation reserve	Retained earnings	Common shareholders' equity	Preferred securities	Shareholders' equity	Non-controlling interests	Total equity
	(103)	1,385	83	16,406	28,273	671	28,945	374	29,318
	–	–	–	–	1	–	1	–	1
	–	–	–	(2,064)	(2,064)	(32)	(2,096)	(8)	(2,104)
	–	–	–	–	(14)	(110)	(124)	–	(124)
	–	–	–	–	48	–	48	–	48
	–	–	–	(618)	(812)	–	(812)	–	(812)
	87	(2,725)	16	1,892	(3,890)	32	(3,858)	6	(3,853)
	–	*–*	*–*	*3,007*	*3,007*	*32*	*3,039*		
	–	*–*	*–*	*–*	*(3,159)*	*–*	*(3,159)*		
	87	*–*	*–*	*–*	*87*	*–*	*87*		
	–	*(2,725)*	*–*	*–*	*(2,725)*	*–*	*(2,725)*		
	–	*–*	*16*	*–*	*16*	*–*	*16*		
	–	*–*	*–*	*(1,115)*	*(1,115)*	*–*	*(1,115)*		
	–	–	–	–	–	–	–	1,307	1,307
	(16)	(1,341)	99	15,616	21,542	561	22,103	1,678	23,781
	(16)	(1,341)	99	15,616	21,542	561	22,103	1,678	23,781
	–	–	–	–	929	–	929	–	929
	–	–	–	(1,389)	(1,389)	(19)	(1,408)	(17)	(1,426)
	–	–	–	–	59	–	59	–	59
	–	–	–	86	367	–	367	–	367
	7	944	(1)	3,367	7,609	19	7,628	85	7,714
	–	*–*	*–*	*3,196*	*3,196*	*19*	*3,215*		
	–	*–*	*–*	*–*	*3,292*	*–*	*3,292*		
	7	*–*	*–*	*–*	*7*	*–*	*7*		
	–	*944*	*–*	*–*	*944*	*–*	*944*		
	–	*–*	*(1)*	*–*	*(1)*	*–*	*(1)*		
	–	*–*	*–*	*171*	*171*	*–*	*171*		
	–	–	–	–	–	–	–	54	54
	(9)	**(396)**	**98**	**17,680**	**29,117**	**561**	**29,678**	**1,800**	**31,478**

Zurich Financial Services Ltd and its subsidiaries (collectively the "Group") are an insurance-based financial services provider with a global network. The Group also distributes non-insurance products, such as mutual funds, mortgages and other financial services products, from selected third-party providers. The Group operates mainly in Europe, the USA, Latin America and Asia Pacific through subsidiaries, branch offices and representations.

Zurich Financial Services Ltd, a Swiss corporation, is the holding company of the Group and is listed on the SIX Swiss Exchange. Zurich Financial Services Ltd was incorporated on April 26, 2000, in Zurich, Switzerland. It is recorded in the Commercial Register of the canton of Zurich under its registered address at Mythenquai 2, 8002 Zurich. Due to a change in the Swiss Code of Obligations Zurich Financial Services was renamed to Zurich Financial Services Ltd effective April 2, 2009. Throughout this document the new name Zurich Financial Services Ltd is used consistently even if reference is made to facts that occurred prior to the renaming of the company.

On February 3, 2010 the Board of Directors of Zurich Financial Services Ltd authorized these Consolidated Financial Statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on March 30, 2010.

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 products, IFRS permits reference to another comprehensive body of accounting principles that uses a similar conceptual framework. In these cases, the Group typically refers to accounting principles generally accepted in the United States of America (US GAAP) for guidance. In certain cases the Group may decide to maintain the local statutory treatment if this does not distort a fair presentation of the financial position of the Group. If significant, the impact of such cases is described elsewhere in the notes to these Consolidated Financial Statements.

The accounting policies applied by the reportable segments are the same as those applied by the Group. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices, with the exception of dividends, realized capital gains as well as gains and losses on transfer of net assets, which are eliminated against equity. For the Consolidated Financial Statements inter-segment revenues and transfers are eliminated.

Disclosures under IFRS 4 "Insurance Contracts" and IFRS 7 "Financial Instruments: Disclosures" relating to the nature and extent of risks, and capital disclosures under IAS 1 "Presentation of Financial Statements" have been included in the "Risk Review" on pages 92 to 130, and they form an integral part of the Consolidated Financial Statements.

Significant Subsidiaries included in the scope of consolidation are disclosed on pages 260 to 262.

Certain amounts recorded in the Consolidated Financial Statements reflect estimates and assumptions made by management about insurance liability reserves, investment valuations, interest rates and other factors. Critical accounting judgments and estimates are discussed in note 4. Actual results may differ from the estimates made.

The Group erroneously classified certain products as traditional insurance and investment contracts that should have been classified as unit-linked contracts. The classification was corrected in the current period as the impact on the Group's income statement was not material. The reclassifications in the balance sheet from Group investments to Investments held for unit-linked contracts, from Reserves for future life policyholder benefits to Reserves for unit-linked contracts, and from Deferred policy acquisition costs to Deferred origination cost and Deferred front end fees are footnoted in notes 8 and 12.

As part of our process to improve the presentation of the Group's Consolidated Financial Statements, we have made certain changes regarding the presentation of "Other investments" in order to better reflect their nature and measurement basis. These changes in presentation have no effect on the previously reported net income or shareholders' equity. Comparative information has been amended to reflect this change.

"Short-term investments", previously reported under "Other investments" amounting to USD 2,307 million (out of which Group Investments represented USD 2,103 million) as of December 31, 2008, are now presented, depending on their nature and measurement basis, under "Cash and cash equivalents", "Debt securities – Available-for-sale", "Debt securities Fair value through profit and loss", "Debt securities – Trading" or "Other loans". Similarly, Group investments previously presented under "Other" within "Other investments" amounting to USD 61 million as of December 31, 2008, are now presented under "Equity securities – Trading". These changes in presentation are reflected in the consolidated balance sheets, consolidated statements of cash flows and notes 6 and 30.

As of December 31, 2008 an amount of USD 618 million previously reported under "Debt securities – Available-for-sale", is now presented under "Other loans" to better reflect the nature of the underlying investments.

Interest on reinsurance deposits previously presented under "Net Investment income" amounting to USD 28 million is now presented under "Other income" for the year ended December 31, 2008. This change in presentation is reflected in the consolidated income statements.

USD 169 million as of December 31, 2008, was erroneously presented under "Goodwill" but in substance comparable to distribution agreement intangible assets is now reported under "Other intangible assets". This is a change in presentation with no effect on the previously reported net income or shareholders' equity. Comparative amounts have been amended accordingly in the consolidated balance sheets and note 18.

The treatment of the elimination of inter-segment transactions has been changed to eliminate gross up effects on certain intercompany clearing accounts. This change results in an increase/(decrease) on the inter-segment revenue line for the year ended December 31, 2008 as follows: USD 724 million in General Insurance, USD (131) million in Global Life, USD (11) million in Farmers, USD (627) million in Other Operating Businesses and USD 45 million in Non-Core Businesses. The change has no impact on either segmental Business Operating Profit (BOP) or net income of the Group.

The Group's balance sheet is not presented using a current/non-current classification. However, the following balances are generally considered to be current: cash and cash equivalents, short-term investments, deferred policy acquisition costs on general insurance contracts, accrued investment income, receivables, reserve for premium refunds, accrued liabilities and obligation to repurchase securities.

The following balances are generally considered to be non-current: equity securities, equity method accounted investment, real estate held for investment, deferred policy acquisition costs on life insurance contracts, deferred tax assets, goodwill, other intangible assets, property and equipment, and deferred tax liabilities.

The following balances are mixed in nature (including both current and non-current portions): debt securities, mortgage loans, other loans, other investments, reinsurers' share of reserves for insurance contracts, deposits made under assumed reinsurance contracts, deferred front-end fees, 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, 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, debt related to capital markets and banking activities, and senior and subordinated debt.

Maturity tables have been provided for the following balances: reserves for insurance contracts (tables 16a and 16b in "Risk Review"), liabilities for investment contracts (tables 17a and 17b in "Risk Review"), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), collateralized loans (table 16), other financial liabilities (table 20.2) and outstanding debt (table 22.3).

Changes related to operating segments are shown in note 30.

All amounts in the Consolidated Financial Statements are shown in USD millions, rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add to the rounded total in all cases.

The table below summarizes the principal exchange rates that have been used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD (49) million and USD 26 million for the years ended December 31, 2009 and 2008, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 118 million and USD (801) million for the years ended December 31, 2009 and 2008, respectively.

Table 1

Principal exchange rates

USD per foreign currency unit	Balance sheets		Income statements and cash flows	
	12/31/09	12/31/08	**12/31/09**	12/31/08
Euro	1.4333	1.3924	1.3935	1.4719
Swiss franc	0.9649	0.9371	0.9232	0.9265
British pound	1.6164	1.4620	1.5650	1.8556

Change in presentation in 2009

Reclassifications on consolidated income statement

Table 1.1

in USD millions, for the year ended December 31, 2008	As reported	Reclassifications	As revised
Revenues			
Gross written premiums and policy fees	51,894		51,894
Less premiums ceded to reinsurers	(6,226)		(6,226)
Net written premiums and policy fees	45,667		45,667
Net change in reserves for unearned premiums	(1,560)		(1,560)
Net earned premiums and policy fees	44,107		44,107
Farmers management fees and other related revenues	2,458		2,458
Net investment result on Group investments	5,832	(28)	5,805
Net investment income on Group investments	8,725	(28)	8,698
Net capital gains/(losses) and impairments on Group investments	(2,893)		(2,893)
Net investment result on unit-linked investments	(21,731)		(21,731)
Net gain/(loss) on divestments of businesses	16		16
Other income	1,665	28	1,693
Total revenues	32,349		32,349
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	31,387		31,387
Less ceded insurance benefits and losses	3,425		3,425
Insurance benefits and losses, net of reinsurance	34,811		34,811
Policyholder dividends and participation in profits, net of reinsurance	(21,514)		(21,514)
Underwriting and policy acquisition costs, net of reinsurance	8,287		8,287
Administrative and other operating expense	6,729		6,729
Interest expense on debt	599		599
Interest credited to policyholders and other interest	773		773
Total benefits, losses and expenses	29,685		29,685
Net income before income taxes	2,663		2,663
Income tax expense	452		452
attributable to policyholders	1,184		1,184
attributable to shareholders	(732)		(732)
Net income after taxes	**3,116**		**3,116**
attributable to non-controlling interests	77		77
attributable to shareholders	3,039		3,039

Reclassification on consolidated balance sheet

Table 1.2

in USD millions, as of December 31, 2008	As reported	Reclassifications	As revised
Investments			
Total Group investments	179,570	–	179,570
Cash and cash equivalents	11,965	463	12,428
Equity securities	14,242	61	14,303
Debt securities	118,103	184	118,287
Real estate held for investment	7,524	–	7,524
Mortgage loans	12,820	–	12,820
Other loans	12,531	1,457	13,988
Equity method accounted investments	220	–	220
Other investments	2,165	(2,165)	–
Investments for unit-linked contracts	78,203	–	78,203
Total investments	257,773	–	257,773
Reinsurers' share of reserves for insurance contracts	18,595	–	18,595
Deposits made under assumed reinsurance contracts	2,397	–	2,397
Deferred policy acquisition costs	14,323	–	14,323
Deferred origination costs	770	–	770
Accrued investment income	2,429	–	2,429
Receivables	13,229	–	13,229
Other assets	4,095	–	4,095
Mortgage loans given as collateral	1,233	–	1,233
Deferred tax assets	2,901	–	2,901
Property and equipment	1,889	–	1,889
Goodwill	1,846	(169)	1,677
Other intangible assets	6,464	169	6,633
Total assets	**327,944**	**–**	**327,944**
Liabilities			
Reserve for premium refunds	620	–	620
Liabilities for investment contracts	35,979	–	35,979
Deposits received under ceded reinsurance contracts	1,619	–	1,619
Deferred front-end fees	4,695	–	4,695
Reserves for insurance contracts	222,179	–	222,179
Obligations to repurchase securities	3,608	–	3,608
Accrued liabilities	2,820	–	2,820
Other liabilities	16,944	–	16,944
Collateralized loans	1,233	–	1,233
Deferred tax liabilities	3,485	–	3,485
Debt related to capital markets and banking activities	2,527	–	2,527
Senior and subordinated debt	8,455	–	8,455
Total liabilities	**304,163**	**–**	**304,163**
Equity			
Shareholders' equity	22,103	–	22,103
Non-controlling interests	1,678	–	1,678
Total equity	**23,781**	**–**	**23,781**
Total liabilities and equity	**327,944**	**–**	**327,944**

2. Implementation of new accounting standards and amendments to published accounting standards

Standards published and effective as of January 1, 2009 and relevant for the Group's operations

The following new accounting standards or amendments to and interpretations of standards relevant to the Group have been implemented for the financial year beginning January 1, 2009 with no material impact on the Group's financial position or performance.

In November 2006, the IASB issued IFRS 8 "Operating Segments". IFRS 8 is effective for reporting periods beginning on or after January 1, 2009. The standard sets out the requirements for disclosure of an entity's operating segments on the same basis as internal reporting used by management for decision making, as well as disclosures of the entity's products and services, the geographical areas in which it operates, and its major customers. The segment disclosures reflect the implementation of this standard. Segment information is disclosed in the manner in which the business is managed. As a result, the Group has amended its segment structure and some reporting units have been allocated to a different reportable segment. Additionally, the Group now includes its internal performance measure, Business Operating Profit (BOP), in the segment disclosures. Comparative information has been amended accordingly. Note 30 provides detailed information on the new segmental structure.

In March 2007, the IASB issued amendments to IAS 23 "Borrowing Costs" that are effective for reporting periods beginning on or after January 1, 2009. The amendments eliminate the option to recognize all borrowing costs for eligible assets immediately as an expense.

In June 2007, IFRIC 13 "Customer Loyalty Programmes" was issued. IFRIC 13 is effective for reporting periods beginning on or after July 1, 2008. The interpretation explains how entities that grant loyalty award credits should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits.

In January 2008, the IASB issued amendments to IFRS 2 "Vesting Conditions and Cancellations". The amendments are effective for reporting periods beginning on or after January 1, 2009. The amended standard clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or the valuation thereof subsequent to the date of grant. All cancellations whether by the entity or by other parties, should receive the same accounting treatment.

In February 2008, the IASB issued amendments to IAS 32 "Financial Instruments: Presentation" and to IAS 1 "Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation". The amendments are effective for reporting periods beginning on or after January 1, 2009. The amended standards require entities to classify as equity all puttable financial instruments, and instruments or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, provided such financial instruments have particular features and meet specific conditions.

In March 2009, the IASB issued amendments to IFRS 7 "Improving Disclosures about Financial Instruments". The amendments are effective for reporting periods beginning on or after January 1, 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. These new disclosures have been included in note 27.

In March 2009, the IASB issued amendments to IFRIC 9 and IAS 39 "Embedded Derivatives". The amendments are effective for reporting periods ending on or after June 30, 2009. The amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the 'fair value through profit or loss' category as permitted by the October 2008 amendments to IAS 39 "Financial Instruments: Recognition and Measurement".

Standards, amendments and interpretations issued that are not yet effective

The following standards, amendments and interpretations of existing published standards are not yet effective but will be relevant to the Group's operations. The Group is currently evaluating the impact of adopting these standards, amendments and interpretations.

In January 2008, the IASB issued the revised IFRS 3 "Business Combinations". The standard is effective for reporting periods beginning on or after July 1, 2009, prospectively. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent consideration that are classified as debt being subsequently re-measured at fair value through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed.

In January 2008, the IASB issued amendments to IAS 27 "Consolidated and Separate Financial Statements". The amendments are effective for reporting periods beginning on or after July 1, 2009. The amended standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer give rise to goodwill or gains and losses.

In July 2008, the IASB issued amendments to IAS 39 "Eligible Hedged Items". The amendments are mandatory for reporting periods beginning on or after July 1, 2009. The amendments clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for hedge designation should be applied in particular situations.

In November 2008, IFRIC 17 "Distributions of Non-cash Assets to Owners" was issued. IFRIC 17 is effective for reporting periods beginning on or after July 1, 2009. The interpretation clarifies when a dividend payable should be recognized and how distributions of assets other than cash should be measured when an entity pays dividends to its owners.

In April 2009, the IASB issued several minor amendments as part of the IASB's annual improvements project. The amendments are effective for reporting periods beginning on or after January 1, 2010 with the exception of amendments regarding IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IAS 38 "Intangible Assets", IFRIC 9 "Reassessment of Embedded Derivatives" and IFRIC 10 "Interim Financial Reporting and Impairment" which are effective for reporting periods beginning on or after July 1, 2009.

In June 2009, the IASB issued amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions". The amendments are effective for reporting periods beginning on or after January 1, 2010. The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

In October 2009, the IASB issued amendments to IAS 32 "Classification of Rights Issues". The amendments are effective for reporting periods beginning on or after February 1, 2010. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

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

In November 2009, the IASB issued IFRS 9 "Financial Instruments" which reconsiders the classification and measurement of financial assets. These requirements are effective for reporting periods beginning on or after January 1, 2013, with earlier adoption permitted. Under the new guidance the classification of financial assets is based on how the reporting entity manages these assets (business model) and on the contractual cash flow characteristics of the specific financial assets. The measurement of financial assets will be either amortized costs or fair value through profit or loss, whereby for equity instruments an irrevocable election can be made on an instrument-by-instrument basis to record fair value through Other Comprehensive Income (OCI). The Group plans to assess the impact of this standard on its financial statements in conjunction with the revised standard on IFRS 4 "Insurance Contracts" which is expected to be released in 2011 effective for reporting periods beginning on or after January 1, 2013. Changes to the IFRS timetable may have an impact on 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 Financial Services Ltd and its subsidiaries. A subsidiary is an entity in which Zurich Financial Services Ltd owns, directly or indirectly, more than 50 percent of the outstanding voting rights, or which it otherwise has the power to control. The results of subsidiaries acquired are included in the Consolidated Financial Statements from the date of acquisition. The results of subsidiaries that have been divested during the year are included up to the date control ceased. All significant intercompany balances, profits and transactions are eliminated in full.

Acquisition transactions with non-controlling interests are accounted for as transactions with parties external to the Group. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant carrying value of non-controlling interest acquired.

Investments in associates and partnerships where the Group has the ability to exercise significant influence but not control, as well as joint ventures where there is joint control, are accounted for using the equity method. Significant influence is presumed to exist when the Group owns, directly or indirectly, between 20 percent and 50 percent of the voting rights. Under the equity method of accounting, investments in associates, partnerships or joint ventures are initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investment.

The Consolidated Financial Statements are prepared as of December 31 based on individual company financial statements at the same date. In some cases information is included with a time lag of up to three months. The effects on the Group's Consolidated Financial Statements are not material.

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

IFRS does not provide specific guidance on all aspects of recognition and measurement of insurance and reinsurance contracts. 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. At the time of adoption, the Group typically considered U.S. GAAP pronouncements issued by the Financial Accounting Standards Board (FASB) on insurance and reinsurance contracts in areas where IFRS 4 did not include specific requirements.

Classification

Insurance and reinsurance contracts are those contracts that transfer significant insurance risk. These contracts may also transfer financial risk. Significant insurance risk is defined as the possibility of paying significantly more in a scenario where the insured event occurs than in a scenario where the insured event does not occur. Scenarios considered include those which have commercial substance.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of insurance and investment contracts contain DPF which entitle the contract holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- the amount or timing of which is contractually at the discretion of the Group; and
- that are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
  - the net income of the company, fund or other entity that issues the contract.

The Group applies the same accounting policies for the recognition and measurement of obligations arising from insurance contracts and from investment contracts with DPF. These recognition and measurement criteria apply to obligations arising from the contract, deferred acquisition costs and other related intangible assets.

The Group also issues products containing an embedded option to the policyholder to switch all or part of the current and future invested funds into another product issued by the Group, usually from a unit-linked product into a unitized with-profits contract or similar. Certain of these products allow policyholders to switch back to the previous product at their convenience. 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 policies for such products 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

Premiums from the sale of general insurance products are recorded when written and normally are accreted to earnings on a pro-rata basis over the term of the related policy coverage. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are recognized over the period of risk in proportion to the amount of insurance protection provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage.

Premiums from traditional life insurance contracts, including participating contracts and annuity policies with life contingencies, are recognized as revenue when due from the policyholder. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies. Moreover, for single premium and limited pay contracts, premiums are recognized in income when due with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from investment type contracts such as universal life, unit-linked and unitized with-profits contracts are reported as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration and surrenders during the period. Front-end fees are recognized over the estimated life of the contracts.

Cash flows from certain universal life-type contracts in our Spanish operations are recognized as gross written premiums and insurance benefits and losses instead of deposits.

Deferred policy acquisition costs (DAC)

The costs of acquiring new business, including commissions, underwriting and policy issue expenses, which vary with and are directly related to the production of new business, are deferred. 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.

DAC for participating traditional life insurance contracts is amortized over the expected 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 historical and anticipated future experience using the latest revised interest rate for the remaining benefit period. Resultant deviations from estimated experience are reflected in income.

DAC for other traditional life insurance and annuity policies is amortized over the expected 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 premium deficiency occurs.

DAC for contracts such as universal life, unit-linked and unitized with-profits contracts is amortized over the expected 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 historical and anticipated future experience using the latest revised interest rate for the remaining benefit period. Resultant deviations from estimated experience are reflected in income.

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

For certain products the DAC asset is adjusted for the impact of unrealized gains/(losses) on allocated investments that are recorded in equity (shadow accounting).

DAC for general insurance contracts is amortized over the period in which the related premiums written are earned.

Unamortized DAC associated with internally replaced contracts that are, in substance, contract modifications, continue to be deferred and amortized. Costs associated with internally replaced contracts that are, in substance, new contracts, are written down at the time of replacement.

Liability adequacy tests

Liability adequacy testing is performed for portfolios of contracts at each reporting date, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. Net unearned premiums are tested to determine whether they are sufficient to cover related expected claims, loss adjustment expenses, policyholder dividends, commission, amortization and maintenance expenses using current assumptions and considering investment returns. If a premium deficiency is identified, the DAC asset is written down by the amount of the deficiency. If, after writing down the DAC asset to nil (for the respective portfolio of contracts), a premium deficiency still exists, then a premium deficiency reserve is recorded to provide for the deficiency in excess of the DAC asset written down.

For traditional life contracts, the net premium reserve, calculated on a locked-in basis and reduced by the unamortized balance of DAC or present value of future profits of acquired insurance contracts (PVFP) is compared with the gross premium reserve, calculated on a best-estimate basis as of the valuation date. If there is a deficiency, the DAC or PVFP is written down to the extent of the deficiency. If, after writing down the DAC or PVFP to nil (for the respective portfolio of contracts), a deficiency still exists, the net liability is increased by the amount of the remaining deficiency.

Reserves for losses and loss adjustment expenses

Losses and loss adjustment expenses are charged to income as incurred. Reserves for losses and loss adjustment expenses represent the accumulation of estimates for ultimate losses and include provisions for losses incurred but not yet reported (IBNR). The reserves represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. The Group does not discount its loss reserves, other than for settled claims with fixed payment terms. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed.

Future life policyholders' benefits and policyholders' contract deposits

These represent the estimated future policyholder benefit liability for traditional life insurance policies and for certain unit-linked contracts, respectively.

Future life policyholders' benefits for participating traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions equal to guaranteed mortality and interest rates.

Future life policyholders' benefits for other traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions including mortality, persistency, expenses and investment return including a margin for adverse deviation. These assumptions are locked-in at inception and are regularly assessed as part of the related liability adequacy testing over the period of the contract.

For traditional life insurance policies, interest rate assumptions can vary by country, year of issuance and product. The mortality rate assumptions are based on published mortality tables and are adjusted for actual experience by geographic area and modified to allow for variations in policy terms. The surrender assumptions are based on actual experience by geographic area and modified to allow for variations in policy terms.

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

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

Where unrealized gains or losses on the revaluation of available-for-sale assets arise they are recorded directly in equity in accordance with the Group's accounting policy for such assets, the corresponding adjustments to future life policyholders' benefits and related assets are also recognized directly in equity.

The policyholders' share of unrealized gains or losses, which may be paid in the future, in respect of assets, is included in future life policyholders' benefits.

For products containing discretionary participation features the amount of the discretionary participation feature is deemed to be the investment return on all related assets where the apportionment between the shareholder and the policyholder has not yet been determined. The liability includes certain elements of net unrealized gains/(losses) and portions of retained earnings attributable to the DPF, based on the mandated rates applied to these gains and earnings on the assumption that they had been realized as of the balance sheet date.

The minimum mandated amounts, which are to be paid to policyholders plus any declared additional benefits, are recorded in liabilities. The remainder of any undeclared discretionary balances are not included in the liability but are included in shareholders' equity until such time as the discretionary element of a bonus is determined and declared.

Reserves for unit-linked contracts are recorded at an amount equal to the consideration received plus accumulated investment yield less any fees charged or dividends paid to the policyholder.

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 behaviour and current market conditions.

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, as well as from the Farmers Exchanges. Reinsurance assets include balances expected from reinsurance companies for 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 claim liability associated with the reinsured policy. Reinsurance is recorded gross in the consolidated balance sheet unless a legal right of offset exists.

Reinsurance assets are assessed for impairment on a regular basis for any events that may trigger impairment. Triggering events may include legal disputes with third parties, changes in capital and surplus levels, change in credit ratings of a counterparty and historical experience regarding collectibility from specific reinsurers.

If there is objective evidence that a reinsurance asset is impaired, the carrying amount of the asset is reduced to its recoverable amount. An impairment is considered to have taken place if it is probable that the Group will not be able to collect the amounts expected from reinsurers. The carrying amount of a reinsurance asset is reduced through the use of an allowance account, and the amount of any impairment loss is recognized in income.

In addition to assessing whether significant insurance risk has been transferred, reinsurance contracts are further assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the ceding company to the reinsurer. Those contracts that do not transfer both risks, referred to in total as insurance risk, are accounted for using the deposit method. A deposit asset or liability is recognized based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the ceding company. Deposits for contracts that transfer only significant underwriting risk are subsequently measured based on the unexpired portion of coverage until a loss is incurred, after which the present value of expected future cash flows under the contract is added to the remaining unexpired portion of coverage. Changes in the deposit amount are recorded in the consolidated income statements as an incurred loss. Interest on deposits that transfer only timing risk, or no risk at all, are 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. Premiums paid under retroactive contracts are included in reinsurance recoverables in the balance sheet. If the amount of gross claims provisions reinsured is higher than the premium paid, reinsurance receivables are increased by the difference, and the gain is deferred and amortized over the period in which the underlying claims are paid.

c) Investment contracts (without DPF)

The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

Liabilities for investment contracts (unit-linked)

These represent portfolios maintained to meet specific investment objectives of policyholders who bear the credit and market and liquidity risks related to those investments. The liabilities are carried at fair value, with fair value of the liabilities determined by reference to the underlying financial assets. The related assets held under unit-linked investments contracts are classified as designated at fair value through profit or loss in order to reduce measurement inconsistencies. Changes in the fair value of the assets and liabilities are recorded in income. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against the policyholders' account balances are included in policy fee revenue.

The liability held for unit-linked contracts with capital units is measured at the funded value of those units. At the date of issue, the difference between the funded and unfunded value of units is treated as deferred revenue.

Valuation techniques are used to establish the fair value of investment contracts at inception and at each subsequent reporting date.

The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. If market data is not observable, the Group uses assumptions based on its own experience. The fair value of a unit-linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitized investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder as of the balance sheet date.

If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never recorded at less than the amount payable on surrender, discounted for the required notice period, where applicable.

Liabilities for investment contracts (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 deducted from the initial amount and form part of the effective yield. Future assumptions, except for the effective interest rate, are reviewed as of each reporting date. Changes in the liability due to changes in future assumptions are recognized in income.

The effective interest rate method applies an interest rate (the effective interest rate) that exactly discounts the estimated future cash payments or receipts to the net carrying amount of the financial liability, through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument before maturity.

As of each reporting date, the Group re-estimates the expected future cash flows and recalculates 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, including 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 the investment management service. DOC is tested for recoverability as of each reporting date.

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

d) Other revenue recognition

Fees for non-claims related management services provided by FGI to the Farmers Exchanges are calculated primarily as a percentage of gross premiums earned by the Farmers Exchanges. FGI provides non-claims related management services to the Farmers Exchanges, including risk selection, preparation and mailing of policy forms and invoices, premium collection, management of the investment portfolios and certain other administrative and managerial functions. The Farmers Exchanges are directly responsible for their own claims functions, including the settlement and payment of claims and claims adjustment expenses, as well as for the payment of agent commissions and bonuses and the payment of premium and income taxes.

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 different 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.

e) Net investment income

Net investment income includes investment income earned and investment expenses incurred.

Investment income primarily consists of dividend income on equity securities, interest income on financial assets other than equity securities, rental income earned on real estate held for investment and income earned on investments that are accounted for using the equity method of accounting.

Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date.

Interest income on financial assets that are not classified as held for trading or designated at fair value through profit or loss is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Rental income earned on real estate held for investment is recognized on an accrual basis.

Investment expenses consist of operating expenses for real estate held for investment and other investment expenses. These expenses are recognized on an accrual basis.

f) Investments

Investments include cash and cash equivalents, non-derivative financial instruments, real estate held for investment, and investments in associates and joint ventures.

Categories of non-derivative financial instruments

Non-derivative financial instruments are classified as financial assets at fair value through profit or loss, financial assets held-to-maturity, loans and receivables, and financial assets available-for-sale. The classification depends on the purpose for which the investments were acquired. Management determines the classification of these investments at initial recognition with reference to its long-term investment objectives.

Financial assets at fair value through profit or loss include financial assets held for trading and those designated at fair value through profit or loss at inception.

Financial assets held for trading are debt and equity securities which the Group buys with the principal intention to resell in the near term.

Financial assets designated at fair value through profit or loss at inception are mainly financial assets backing unit-linked insurance and unit-linked investment contracts. Reserves relating to unit-linked insurance contracts and liabilities for unit-linked investment contracts are carried at fair value, which is determined by reference to these assets with changes in the fair value of both the asset and liability recognized in income. 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. The fair value designation, once made, is irrevocable.

Held-to-maturity financial assets are non-derivative 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's management has the positive intention and the ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated at fair value

through profit or loss or is holding as available-for-sale. Loans and receivables include loans where money is provided directly to the borrower, such as mortgage loans, policyholder loans and other loans.

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or are not classified in any of the other categories.

Measurement of investments

General

The Group recognizes regular way 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.

Financial assets are initially recognized at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition.

Held-to-maturity financial assets

Held-to-maturity financial assets are subsequently carried at amortized cost using the effective interest rate method, less any charges for impairment. The amortization of premium and accretion of discount on held-to-maturity investments recognized in the current period is included in investment income.

Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss are subsequently measured 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.

Investments backing certain life insurance policies with participation features are held as at fair value through profit or loss in order to reduce measurement inconsistencies. The change in fair value of these assets recognized in net investment result are offset by equivalent movements attributable to policyholders.

Loans and receivables

Loans and receivables are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Available-for-sale financial assets

Available-for-sale financial assets are subsequently carried at fair value, with changes in fair values recognized directly in shareholders' equity until the securities are either sold or impaired.

The cumulative unrealized gains or losses recorded in shareholders' equity are net of cumulative deferred income taxes, certain 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 previously recognized in shareholders' equity are recognized in income.

Dividends on available-for-sale equity instruments are recognized in income when the Group's right to receive payments is established. Dividends are included in the investment income line. Interest on available-for-sale debt instruments calculated using the effective interest method is recognized in the investment income line.

Other items
Cash and cash equivalents are short-term highly liquid investments that are readily convertible into cash. This includes cash in hand, deposits held at call with banks, other short-term investments with original maturities of three months or less. Cash and cash equivalents also includes cash received as collateral for securities lending. Cash and cash equivalents are stated at face value.

Real estate held for investment is initially recorded at cost (including transaction costs) and is subsequently measured at fair value with changes in fair value recognized in income. Fair value is based on active market prices, adjusted if necessary for differences in the nature, location or condition of the property. If active market prices are not available, alternative valuation methods are used, for example discounted cash flow projections. Valuations are performed annually by internal valuation specialists and generally at least once every three years by external valuers. No depreciation is recorded for real estate held for investment. The gain or loss on disposal of real estate held for investment is based on the difference between the proceeds received and the carrying value of the investment and is recognized in income when the disposal is completed.

Impairments of non-derivative financial instruments

General
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group as a result of one or more of the following events:

a) significant financial difficulty of the issuer or debtor;

b) a breach of contract, such as a default or delinquency in payments;

c) it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganization;

d) the disappearance of an active market for that financial asset because of financial difficulties; or

e) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in that group, including:

- adverse changes in the payment status of issuers or debtors in that group; or
- national or local economic conditions that correlate with defaults on the assets in that group.

The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Financial assets carried at amortized cost
For held-to-maturity financial assets as well as loans and receivables, impairment is considered to have occurred 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 financial assets, 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 of financial assets carried at amortized cost is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows, using the original effective interest rate for the financial assets. The impairment for mortgage loans and receivables is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for known or anticipated trends in the group of financial assets or individual accounts. If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through income. This reversal does not result in a carrying amount for the financial asset exceeding the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Financial assets carried at fair value
When a decline in the fair value of an available-for-sale equity security has been recognized directly in shareholders' equity and there is objective evidence that the security is impaired, the cumulative loss already recognized directly in shareholders' equity, including any portion attributable to foreign currency changes, is recognized in income. Such impairment arises when the fair value of the security is below the weighted-average cost by a significant amount. Impairment thresholds are determined each quarter 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, Rest of Continental Europe, Asia Pacific). Additionally, the Group considers an available-for-sale equity security impaired when the fair value has been below the weighted-average cost for a prolonged period of 24 months or longer. The amount of the cumulative loss that is removed from shareholders' equity and recognized in current period income is the difference between weighted-average acquisition cost and current fair value, less any impairment loss on that security previously recognized in income. Impairment losses recognized in income on equity securities classified as available-for-sale are not reversed through income. When a previously impaired equity security increases in fair value, unrealized gains will be recognized through shareholders' equity. Any subsequent losses, including any portion attributable to foreign currency changes, are also reclassified from shareholders' equity to income as impairments until the equity instrument is derecognized.

When a decline in the fair value of an available-for-sale debt security has been recognized directly in shareholders' equity and there is objective evidence that the security is impaired, the cumulative loss already recognized directly in shareholders' equity is recognized in income. Available-for-sale debt securities are evaluated for impairment if a loss event that has an impact on future cash flows and that can be reliably estimated has occurred. The amount of the cumulative loss that is removed from shareholders' equity and recognized in income is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that debt security previously recognized in income. If the fair value of a debt instrument classified as available-for-sale 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. This reversal would be recognized in income only up to the amount of the previously recognized impairment loss, adjusted for any amortization already recognized in income. Any subsequent gains are recognized directly in shareholders' equity. Any subsequent losses, to the extent they do not represent impairment losses, are also recognized in shareholders' equity.

g) Derivative financial instruments
Derivative financial instruments held by the Group include interest rate, currency and total return swaps, futures, forwards and option contracts, all of which derive their value mainly from changes in underlying interest rates, foreign exchange rates, commodity values or equity instruments. A derivative contract may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardized and include futures and certain option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, caps, floors and swaps. Derivative financial instruments are subject to various risks similar to those related to the underlying financial instruments, including market, credit and liquidity risk.

In addition to the derivative financial instruments described above, the Group enters into contracts that are not considered derivative financial instruments in their entirety but which include embedded derivative features. Such embedded derivatives are assessed at inception of the contract and, depending on their characteristics, are accounted for as separate derivative financial instruments.

Derivative financial instruments, except those designated under a qualifying hedge relationship are classified as held for trading assets or liabilities and carried at fair value on the balance sheet with changes in fair value recognized in income.

Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for the underlying instrument, time to expiry, correlations, yield curves, prepayment rates and volatility of the underlying instrument. Such inputs used in pricing models are generally market observable or derived from market observable data.

Derivative financial instruments that qualify for hedge accounting

For the purpose of hedge accounting, hedging instruments are classified as fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or hedges of the net investment in a foreign operation.

To qualify for hedge accounting, the relationship of the hedging instrument to the underlying transaction must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting, in which case the hedging instrument and the hedged item are reported independently in accordance with the respective accounting policy as if there was no hedging designation. Where hedge accounting conditions are met, the accounting treatments are as follows:

Fair value hedges

Gains or losses from re-measuring the derivatives that are designated and qualify as fair value hedges are recognized immediately in the same line item of the consolidated income statement as the offsetting change in fair value of the risk being hedged. Offsetting gains or losses on the fair value of the hedged item attributable to the hedged risk are adjusted against the carrying amount of the hedged item and recognized in income.

Cash flow hedges

In a cash flow hedge relationship the effective portion of the gain or loss on the re-measurement of the cash flow hedging instrument is recognized directly in shareholders' equity. The ineffective portion is recognized immediately in income. The accumulated gains and losses on the hedged instrument in shareholders' equity are transferred to income in the same period in which gains or losses on the item hedged are recognized in income.

Discontinued hedges

Where hedge accounting is applied, the Group formally documents all relationships between hedging instruments and hedged items, including the risk management objectives and strategy for undertaking hedge transactions. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed in order to determine whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. The Group discontinues hedge accounting prospectively in the following circumstances:

- it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including forecast transactions);
- the derivative expires or is sold, terminated, or exercised;
- the derivative is no longer designated as a hedging instrument because it is unlikely that the forecast transaction will occur; or

- the Group otherwise determines that designation of the derivative as a hedging instrument is no longer appropriate.

When the Group discontinues fair value hedge accounting because it determines that the hedging instrument no longer qualifies as an effective fair value hedge, the hedging instrument will be carried separately on the consolidated balance sheet at its fair value, and the value of the hedged asset or liability will no longer be adjusted for changes in fair value attributable to the hedged risk. Interest-related fair value adjustments made to the underlying hedged items will be amortized in income over the remaining life of the hedged item. Any unamortized interest-related fair value adjustment is recorded in income upon sale or extinction of the hedged asset or liability, respectively. Any other fair value hedge adjustments remain part of the carrying amount of the hedged asset or liability and are recognized in income as part of the gain or loss on disposal of the hedged item.

When hedge accounting is discontinued for a cash flow hedge, the net gain or loss will remain in comprehensive income within shareholders' equity and be reclassified to income in the same period or periods during which the formerly hedged transaction is reported in income. When the Group discontinues hedge accounting because the forecast transaction is no longer expected to occur the hedging instrument will continue to be carried on the consolidated balance sheet at its fair value, and any related accumulated gains and losses that were previously recorded in comprehensive income from the period when the hedge was effective are recognized in income. The forecast transaction may still be expected to occur, but may no longer be highly probable, in which case the related cumulative gains and losses on the hedging instrument remain in comprehensive income within shareholders' equity until the forecast transaction occurs or is no longer expected to occur. At that point, the gains and losses will be treated as described above.

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, that is when the obligation is discharged, is cancelled or has expired.

i) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to settle the asset and settle the liability simultaneously.

j) Securities lending

Certain entities within the Group participate in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of the securities lending agreements, the Group retains substantially all the risks and rewards of ownership of these loaned securities, and also retains contractual rights to 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.

k) Repurchase and reverse repurchase transactions

Securities sold under agreements to repurchase at a certain later date (Repurchase agreements) and securities purchased under agreements to resell (Reverse repurchase agreements) are generally accounted for as collateralized financing transactions. The securities delivered under the 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.

In 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 obtained by the Group. The cash delivered is derecognized and a corresponding receivable is recorded. Interest income is recognized in income using the effective interest rate method over the life of the agreement.

In cases such as in 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 are recognized on the balance sheet at fair value and the original receivable is derecognized. Any shortfall is recorded as a loss in income.

l) 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 borrowings using the effective interest rate method.

Preference shares, which are mandatory redeemable on a specific date are classified as liabilities. The dividends on these preference shares are recognized in the income statement as interest expense.

When fair value hedge accounting is applied to borrowings, the carrying value of borrowings are adjusted for changes in fair values related to the hedged exposure.

m) Interest expense

Interest expense for all financial instruments except for those classified as held for trading or designated at fair value is recognized in income using the effective interest method.

n) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date. Goodwill on acquisition of subsidiaries is included in the balance sheet as a separate line. Goodwill on acquisition of associates is included in investments in associates and joint ventures and is tested for impairment as part of the overall measurement of the carrying amount of those investments.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use of that group of assets (the 'cash generating unit' (CGU)), and that is largely independent of the cash inflows of other assets or groups of assets. The Group's CGUs, on which impairment losses are assessed, represent the lowest level at which goodwill is monitored for internal management purposes. CGUs are not larger than an operating segment.

The test for goodwill impairment is performed annually or whenever there is an indication that the CGU may be impaired. Goodwill is carried at cost less accumulated impairment losses. Impairments are recorded in income if the recoverable amount is less than the carrying amount of the CGU including goodwill. Gains and losses on the divestment of an entity are calculated including the carrying amount of any goodwill relating to the entity sold.

The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value-in-use. Fair value less costs to sell is based on the best information available to reflect the amount that the Group could obtain, as of the balance sheet date, from the disposal of the CGU on an arm's length basis between knowledgeable, willing parties, after deducting the costs of disposal. Impairment losses on goodwill are not reversed.

Indications that goodwill related to a CGU may be impaired include events or changes in circumstances that may have a significant negative impact on the operations of the CGU, or material adverse changes in the assumptions used in determining its recoverable amount.

o) Other intangible assets

Intangible assets include present value of future profits from acquired insurance contracts (PVFP), attorney-in-fact relationships (AIF), and other intangible assets, such as customer relationships and contracts, affinity partnerships, distribution agreements, computer software licenses and capitalized software development costs. Intangible assets acquired in a business combination are recognized separately from goodwill at the acquisition date if their fair values can be measured reliably, the assets are separable or arise from contractual or other legal rights, and they are controlled by the entity.

Costs incurred during the development phase of computer software are capitalized when the following recognition criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and to use it;
- the software is expected to generate future economic benefits;
- sufficient sources are available to complete the development of the software; and
- expenditures can be reliably measured.

Costs associated with research and maintenance of computer software are expensed as incurred.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

The useful lives of customer relationships and contracts, affinity partnerships and distribution agreements extend up to 30 years and are estimated based on the period of time over which they are expected to provide economic benefits and taking into account all relevant economic and legal factors such as usage of the assets, typical product life cycles, potential obsolescence, stability of the industry, competitive position and the period of control over the assets.

The useful lives of computer software licenses and capitalized software development costs generally do not exceed five years. In some exceptional circumstances, capitalized software development costs may be amortized over a period of up to ten years, taking into account the effects of obsolescence, technology, competition and other economic and legal factors.

Other intangible assets with finite 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 whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Other intangible assets with infinite lives are not subject to amortization but are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recorded in income when the carrying value of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less selling costs of an asset and its value-in-use.

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

On the acquisition of life insurance businesses a customer contract intangible asset representing the PVFP is determined. This asset has a finite life and is amortized over the expected life of the policies acquired, based on a constant percentage of the present value of estimated gross profits (margins) expected to be realized, or over the premium recognition period, as appropriate.

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. 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 certain management services, and the historical AIF between FGI and the Farmers Exchanges.

p) 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 the losses can offset future taxable income in the respective jurisdiction.

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 our 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 our 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 on investment contracts with DPF related to certain unit-linked contracts 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.

q) Employee benefits
Retirement benefits
The operating companies in the Group provide employee retirement benefits through both defined benefit plans and defined contribution plans. The assets of these plans are generally held separately from the Group's general assets in trustee-administered funds. Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Group's expense relating to these plans is accrued over the employees' service periods based upon the actuarially determined cost for the period.

Actuarial gains and losses are recognized in full in the period in which they occur and are presented on a separate line in the statement of comprehensive income. Actuarial gains and losses result from experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred during the accounting period), changes in actuarial assumptions since the previous balance sheet date, and differences between the expected and actual returns on plan assets. Unrecognized past service costs represent non-vested benefits on the date of a change in the amount of benefits following an amendment to the plan and are amortized on a straight-line basis over the average vesting period.

Other post-employment benefits
Other defined 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.

r) Share-based compensation and cash incentive plans

Under the Group's equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of shares and/or options is recognized as an expense in income over the vesting period, with a corresponding amount recorded in additional paid-in capital.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and/or options granted. Non-market vesting conditions (for example, profitability and premium income growth targets) are included in assumptions about the number of shares and/or 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 equity. However, no subsequent adjustment to total equity is made after the vesting date.

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

Under the Group's cash-settled share-based payment compensation plan, the Group allows participants to take their option award in the form of Share Appreciation Rights (SAR). Hence, the Group incurs a liability which is measured at the fair value of the SAR. As the fair value of the options which the Group uses for its employee schemes cannot be compared with those in the market, the Group estimates the fair value using the Black-Scholes model. This model requires inputs such as share price, exercise price, implied volatility, risk-free interest rate, expected dividend rate and the expected life of the option. The liability is measured at initial recognition and at each balance sheet date until settled thereby taking into account the terms and conditions on which the SAR were granted, and the extent to which the participants have rendered service to date. The fair value of the participants' services received in exchange for the SAR is recognized as an expense in income over the vesting period and measured by reference to the fair value of the liability.

s) Property and equipment

Own use property is defined as property held by the Group for use in the supply of services or for administrative purposes. Buildings held for own use and equipment are carried at cost less accumulated depreciation and any accumulated impairment loss. These assets are depreciated usually on a straight-line basis to income over the following estimated useful lives:

- buildings 25 to 50 years;
- furniture and fixtures five to ten years; and
- computer equipment three to six years.

Land held for own use is carried at cost less any accumulated impairment loss.

Maintenance and repair costs are charged to income as incurred. The costs of IT systems purchased from third party vendors are capitalized and amortized over expected useful lives. Gains and losses on the disposal of property and equipment are determined by comparing the proceeds with the carrying amounts and are recorded in other income or administrative and other operating expense, respectively.

Assets that have an indefinite useful life, for example land, are not subject to amortization and are tested regularly for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value-in-use. Assets are grouped on a CGU level if the recoverable amount cannot be separately determined.

t) Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the period of the lease, unless another systematic basis is representative of the time pattern of the user's benefit even if the payments are not on that basis.

u) Provisions

Provisions 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.

v) Treasury shares

Zurich Financial Services Ltd shares held by the Group are classified as treasury shares and are deducted from share capital at nominal value. The difference between the nominal value and the amount paid to acquire, or received for the disposal of treasury shares, is recorded as an adjustment to additional paid-in capital, net of transaction costs and tax effects.

w) Foreign currency translation and transactions

Foreign currency translation

In view of the international nature of the Group, there are many individual entities with different functional currencies. A functional currency is the currency of the primary economic environment in which an entity operates. Therefore, a common presentation currency is required. Due to the Group's economic exposure to the U.S. dollar (USD), the presentation currency of the Group has been determined to be the USD. Assets and liabilities of Group companies with functional currencies other than USD are translated into the presentation currency at end-of-period exchange rates, while income statements are translated at average exchange rates for the period. The resulting translation differences are recorded directly in shareholders' equity as cumulative translation adjustments.

Foreign currency transactions 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 translation differences are recorded in income, except for the following:

- when the gain or loss on non-monetary items measured at fair value, such as available-for-sale equity securities, is recognized directly in shareholders' equity, any foreign currency component of that gain or loss is also recognized directly in shareholders' equity;

- 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 of 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 shareholders' equity; and

* on consolidation, foreign currency translation differences arising on monetary items that form part of net investments in foreign operations are recognized directly in shareholders' equity.

Goodwill and any fair value adjustment to the carrying amounts of assets and liabilities on the acquisition of a foreign operation are expressed in the functional currency of the foreign operation and are translated at the end-of-period exchange rates, with any foreign currency translation differences recorded directly in shareholders' equity.

4. Critical accounting judgements and estimates

Critical accounting estimates are those which involve the most complex or subjective judgments or assessments, and relate to general insurance and life insurance reserves, the determination of fair value for financial asset and liabilities, impairment charges, the determination of fair values of assets and liabilities attributable to business combinations, deferred policy acquisition costs, deferred taxes, retirement and other defined benefit post-employment plans and share-based compensation and cash incentive plans. In each case, the determination of these items requires management to make informed judgments based on information and financial data that may change in future periods. Because of the uncertainties involved in such judgments, actual outcomes and results may differ from assumptions and estimates made by management.

a) Reserves for losses and loss adjustment expenses

The Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the Group's general insurance products and the run-off of its former third party reinsurance operations. These reserves represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the balance sheet date. The Group establishes its reserves by product line, type and extent of coverage and year of occurrence. Loss reserves fall into two categories: reserves for reported losses and reserves for IBNR losses. Additionally, reserves are held for loss adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

The Group's reserves for reported losses and loss adjustment expenses are based on estimates of future payments to settle reported general insurance claims and claims from the run-off of its former third party reinsurance operations. The Group bases such estimates on the facts available at the time the reserves are established. The Group generally establishes these reserves on an undiscounted basis to recognize the estimated costs of bringing pending claims to final settlement, taking 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 would result in changes to established reserves. Items such as changes in law and interpretations of relevant case law, results of litigation, changes in medical costs, as well as costs of vehicle and home repair materials and labor rates can substantially impact ultimate settlement costs. Accordingly, the Group reviews and re-evaluates claims and reserves on a regular basis. Amounts ultimately paid for losses and loss adjustment expenses can vary significantly from the level of reserves originally set.

The Group establishes IBNR reserves, generally on an undiscounted basis, to recognize the estimated cost of losses for events which have already occurred but which have not yet been notified. These reserves are established to recognize the estimated costs required to bring claims for these not yet reported losses 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. The Group revises these reserves 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.

Refer to notes 8 and 11 for further information on reserves for losses and loss adjustment expenses.

b) Future life policyholders' benefits and policyholders' contract deposits

The future life policyholders' benefits and policyholders' contract deposits liabilities contain a number of assumptions regarding mortality (or longevity), lapses, surrenders, expenses and investment returns. These assumptions are determined with reference to past experience adjusted for new trends, current market conditions and future expectations. As such the liabilities for future life policyholders' benefits and policyholders' contract deposits may not represent the ultimate amounts paid out to policyholders. For example:

- The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty arises because of the potential for pandemics and wide-ranging lifestyle changes, such as changes in eating, smoking and exercise habits, which could result in earlier deaths for age groups in which the Group has significant exposure to mortality risk.

- For contracts that insure the risk of longevity, such as annuity contracts, an appropriate allowance is made for people living longer. Continuing improvements in medical care and social conditions could result in further improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

- Under certain contracts, the Group has offered product guarantees (or options to take up product guarantees), including fixed minimum interest rate or mortality rate returns. In determining the value of these options and/or benefits, estimates have been made as to the percentage of contract holders that may exercise them. Changes in investment conditions could result in significantly more contract holders exercising their options and/or benefits than has been assumed.

- Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

- Assumptions are determined with reference to current and historical client data, as well as industry data. Interest rate assumptions reflect expected earnings on the assets supporting the future policyholder benefits. The information used by the Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions, available experience studies and profitability analysis.

Refer to notes 8 and 11 for further information on future life policyholders' benefits and policyholders' contract deposits and other funds.

c) Fair value of financial assets and liabilities

As described in note 3, all financial assets and liabilities are recorded initially at fair value. Subsequently, derivative financial instruments, financial assets and liabilities classified as held for trading, designated at fair value, available-for-sale and financial liabilities designated at fair value are carried at fair value. While all the other financial instruments are carried at amortized cost, their fair values are disclosed in note 27.

The determination of fair value for financial assets and liabilities is based generally on quoted market prices or broker/dealer price quotations. If prices are not readily available, fair value is based on either internal valuation models (for example, discounted cash flow models) or management estimates of amounts that could be realized under current market conditions.

Fair values of debt and equity securities are based on quoted market prices when available. If such prices are not available, then fair values are estimated on the basis of pricing models, discounted cash flow models or other recognized valuation techniques or information from external pricing sources.

Discounted cash flow models are used for mortgage and other loans and long term receivables. The discount rates used in these models are either current interest rates charged by the Group on these instruments or a calculated rate that reflects the return a market participant would expect to receive on instruments with similar remaining maturity, cash flow pattern, currency, credit risk, collateral and interest basis.

Fair values of debt instruments issued by the Group are estimated using discounted cash flow models based upon 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 value of liabilities related to unit-linked investment contracts are based on the fair value of financial assets backing these liabilities. Fair values of liabilities related to other investment contracts are determined using discounted cash flow models. A variety of factors are considered in the Group's valuation techniques, including credit risk, embedded derivatives (such as unit-linking features), volatility factors (including contract holder behavior), servicing costs and surrenders of similar instruments.

For certain financial instruments, the carrying amounts approximate to fair value because of the short term nature of the instruments. Such instruments include short-term investments, receivables, obligations to repurchase securities and other short term financial assets and liabilities.

The Group makes extensive use of third party pricing providers in determining fair values of invested assets and only in rare cases places reliance on prices that are derived from internal models. The Group's control environment and the process of selection of pricing providers confirms that fair values of invested assets are sourced only from independent, reliable and reputable third party pricing providers.

The Group employs third party asset managers who manage a significant percentage of assets on behalf of the Group, but are not responsible for determining the fair values used in the financial statements. Investment accounting and operations functions, are completely independent from those responsible for buying and selling the assets, and are responsible for receiving, challenging and verifying values provided by third parties to ensure that fair values are reliable and comply with the applicable accounting and valuation policies. The quality control procedures used depend on the nature and complexity of the invested assets and include regular reviews of valuation techniques and inputs used by pricing providers (for example, default rates of collateral for asset backed securities), variance and stale price analysis and comparisons with fair values of similar instruments and with alternative values obtained from asset managers and brokers.

In cases where significant reliance is placed on an independent price provider, the Group has engaged with that price provider to confirm that the control environment conforms to the high standards that the Group expects. In addition, the Group ensures that independently sourced prices are determined based on valuation techniques that incorporate all factors that market participants would consider in setting a price and are consistent with best practice methodologies for pricing financial instruments. Such models make maximum use of market inputs such as benchmark yields, reported trades and broker/dealer quotes. The Group holds certain asset classes that are not actively traded, in particular hedge funds and private equity investments. Fair values of such instruments are based on regular reports from the issuing hedge funds and private equity funds. Performance of these investments and determination of their fair value are monitored closely by the Group's in-house investment professionals.

Refer to notes 6, 7 and 27 for further information on the fair value of financial assets and liabilities.

d) Impairment of assets

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

A financial asset is considered impaired if there is objective evidence of impairment as a result of a loss event that has an impact on the estimated future cash flows of the financial asset.

For a non-derivative financial asset, the decision to record an impairment is based on a review of objective evidence, such as the issuer's current financial position and future prospects and the national or economic conditions that may correlate with defaults on the asset, as well as the availability of an active financial market for that financial asset. For a quoted available-for-sale asset the impairment decision is further based on an assessment of the probability that the current market price will recover to former levels within the foreseeable future. The recoverable amount is determined by reference to the market price. For non-quoted available-for-sale financial assets, the recoverable amount is determined by applying recognized valuation techniques.

For held-to-maturity financial assets 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 allowance account, and the allowance is 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 judgement is involved in the process of evaluating the impairment of such assets, actual outcomes could vary significantly from the forecasted future cash flows.

For goodwill the recoverable amount is the higher of its fair value less costs to sell and its value-in-use. Fair value of CGUs 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-to-five-year period or if appropriate, a longer period. Cash flows beyond this period are extrapolated using amongst others estimated growth rates. The discount rates applied reflect the respective risk fee interest rate adjusted for the relevant risk factors to the extent not already considered in the underlying cash flows.

The recoverable amount of the intangible assets with an infinite live related to the Farmers segment (i.e. attorney-in-fact (AIF) relationships and goodwill) is determined on the basis of value-in-use calculations. These calculations use cash flow projections based on business plans and the surplus development in the Farmers Exchanges. Business plans are approved by management and typically cover a 5-year period. Cash flows beyond that five-year period are extrapolated for 20 years assuming zero growth.

Refer to notes 3, 6, 15, 17 and 18 for further information on impairments of assets.

e) Fair values of assets and liabilities attributable to business combinations

Acquired businesses are accounted for using the purchase method of accounting which requires that the assets acquired and liabilities assumed be 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 banc-assurance agreements, the multi-period excess earnings or cash flow method is applied, using pre-tax future cash-flows expected to be generated from such assets and discounting at applicable market rates. For brand intangibles the relief from royalty method is generally applied and resulting cash-flows are discounted at applicable market rates. For information technology intangibles the replacement cost method is generally applied.

Refer to note 5 for further information on the fair value of assets and liabilities attributable to business combinations.

f) Deferred policy acquisition costs

Deferred policy acquisition costs generally consist of commissions, underwriting expenses and policy issuance costs. The amount of acquisition costs to be deferred is dependent on judgments as to which issuance costs are directly related to and vary with the acquisition. The related asset is amortized over the premium earning pattern for non-life and certain traditional life products. For most life products, amortization is based on the estimated profitability of the contract throughout its life. The estimation of profitability considers both historical and future experience as regards assumptions, such as expenses, lapse rates or investment income.

Refer to note 12 for further information on deferred policy acquisition costs.

g) Deferred taxes

Deferred tax assets are recognized if sufficient future taxable income, including income from the reversal of existing taxable temporary differences and available tax planning strategies, are 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. 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 would be recognized.

Refer to note 21 for further information on deferred taxes.

h) Employee benefits

The Group provides defined benefit pension plans and other post-employment plans. In assessing the Group's liability for these plans, critical judgments include estimates of mortality rates, rates of employment turnover, disability, early retirement, discount rates, expected long-term rates of return on plan assets, future salary increases, future pension increases and increases in long-term healthcare costs. The discount rate for the significant plans is based on a yield curve approach. The Group sets the discount rate by creating a hypothetical portfolio of high quality corporate bonds for which the timing and amount of cash outflows approximate the estimated payouts of the defined benefit plan. These assumptions may differ from actual results due to changing economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in variability of pension income or expense recorded in future years.

Refer to note 24 for further information on employee benefits.

i) Share-based compensation and cash incentive plans

The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. The fair value of options granted is estimated using the Black-Scholes option pricing model. The key factors involve, but are not limited to, the expected share price

volatility, expected change in dividend rate and contracted option life. These assumptions may differ from actual results due to changes in economic conditions.

Refer to note 25 for further information on share-based compensation and cash incentives plans.

5. Acquisitions and divestments

Recent developments

On July 21, 2009, Caixa d'Estalvis de Sabadell ("Caixa Sabadell"), a savings bank based in Spain with which the Group entered into bank distribution agreements for the Spanish market in 2008, announced that it was developing plans for a merger between itself and two other Spanish savings banks. On September 10, 2009, Caixa Sabadell announced that a third Spanish savings bank had joined these merger preparations on September 7, 2009. The Group is reviewing the potential impact on its distribution agreements with Caixa Sabadell and its options resulting from such a merger.

On December 3, 2009, the Group reached an agreement with Royal Bafokeng Finance (Pty) Limited (RBF), an investment company based in South Africa and wholly owned by Royal Bafokeng Holdings (Pty) Limited, based in South Africa and responsible for the management and development of the commercial assets of the Royal Bafokeng Nation, to increase the RBF share holding in Zurich Insurance Company South Africa Limited, of which the Group owns 73.6 percent, by 15.1 percent from 10 percent to 25.1 percent with option rights to increase up to 50.1 percent or sell the entire stake back to the Group. Regulatory approval has been granted and the parties are preparing to close the transaction in February 2010.

Transactions in 2009

Acquisitions

Business combinations – current period

Table 5.1

in USD millions	21st Century[1]	Minas Brasil	Total
Book value of net assets prior to acquisition	147	9	156
Fair value of net tangible assets acquired	8	9	17
Identifiable intangible assets, net of deferred tax	91	19	110
Goodwill	440	114	553
Total acquisition costs	539	143	681
Cash consideration	320	135	455
Subordinated capital notes transferred	201	–	201
Transaction costs	18	3	21
Present value of deferred payments	–	4	4
Cash and cash equivalents acquired	–	47	47

[1] The 21st Century purchase price allocation is provisional.

On July 1, 2009, the Group completed the acquisition of 100 percent of the U.S. Personal Auto Group, primarily comprising the direct platform of 21st Century and consequently named "21st Century" going forward, from American International Group, Inc. The purchase price amounted to USD 1,893 million, of which USD 1,692 million was paid in cash and USD 201 million was met through the issue of Euro denominated Subordinated Capital Notes. As part of the transaction, the Group contemporaneously sold the regulated insurance businesses and certain other related net assets to the Farmers Exchanges, which the Group manages but does not own, for USD 1,372 million in cash, resulting in a net purchase price of USD 521 million for the management services business retained by the Group. Up to December 31, 2009, the Group has incurred transaction costs directly attributable to the business combination of USD 18 million, which are included in the total acquisition costs of USD 539 million. Based on the provisional purchase price allocation, net tangible assets of USD 8 million and capitalized software of USD 91 million were acquired. The residual goodwill of USD 440 million reflects the economic benefit of the retained management services business. Total revenues and

business operating profit of the retained management services business for the six months starting July 1, 2009 and ending December 31, 2009 were USD 214 million and USD 81 million, respectively. The book value of net assets prior to acquisition amounted to USD 147 million. The purchase price allocation will be finalized in 2010.

"Minas Brasil" sets out the acquisition of 100 percent of Companhia de Seguros Minas Brasil (CSMB) and of 100 percent of Minas Brasil Seguradora Vida e Previdência S.A. (MBVP), a life insurer based in Brazil. On November 28, 2008 the Group acquired 87.35 percent of CSMB and 100 percent of MBVP from Banco Mercantil do Brasil S.A. (Banco Mercantil) and two private investors. As part of this transaction, the Group entered into an exclusive distribution agreement with Banco Mercantil for both life and general insurance products. Following price adjustments in accordance with the purchase agreement, total acquisition costs for CSMB, MBVP and the distribution agreement amounted to USD 121 million and included net tangible assets acquired of USD 9 million and identifiable intangible assets, net of deferred tax, of USD 19 million, mainly relating to the distribution agreement with Banco Mercantil. The residual goodwill of USD 93 million represents expected synergies and growth opportunities from the bank distribution agreement and the expansion of other sales channels. In addition, an earn-out component of up to USD 21 million based on future performance under the distribution agreement has been agreed. During the year ended December 31, 2009 the Group acquired the remaining 12.65 percent of the outstanding shares of CSMB for a total consideration of USD 22 million, resulting in total ownership for the Group of 100 percent of the share capital of CSMB and an increase of goodwill of USD 21 million. The amounts shown in table 5.1 under total acquisition costs of USD 143 million and goodwill of USD 114 million comprise MBVP and the distribution agreement, the acquisition of the 87.35 percent of CSMB in 2008 and of the remaining 12.65 percent of CSMB in 2009, respectively. Total revenues for the year ended December 31, 2009 of both, CSMB and MBVP combined were USD 216 million and the impact of this transaction on the income was immaterial.

Divestments

During the year ended December 31, 2009, the Group sold all of its shares in Paofoong Insurance Company (Hong Kong) Limited based in Hong Kong and in Constellation Reinsurance Company based in New York, recording a pre-tax loss on disposal in aggregate of USD 5 million. Total cash and net assets divested in 2009 were in aggregate USD 18 million and USD 12 million, respectively. The total consideration received in 2009, net of immaterial transaction costs, amounted in aggregate to USD 7 million.

Transactions in 2008

Acquisitions

During 2008, the Group completed several acquisitions that were accounted for as business combinations. The acquisitions indicated in the following table were individually significant to the Group and are therefore presented separately. The other acquisitions are presented in aggregate. The purchase price allocation has been finalized for all acquisitions completed during 2008.

Table 5.2

Business combinations – prior period

in USD millions	TEB Sigorta	Caixa Sabadell	Banco Sabadell[1]	Other	Total
Book value of net assets prior to acquisition	22	140	179	104	445
Fair value of net tangible assets acquired	35	140	167	102	444
Identifiable intangible assets, net of deferred tax	76	548	1,931	219	2,775
Goodwill	253	–	–	66	320
Non-controlling interests	–	(344)	(1,049)	(77)	(1,470)
Total acquisition costs	364	344	1,049	311	2,069
Cash consideration	363	343	1,041	254	2,001
Transaction costs	1	1	8	2	12
Present value of deferred payments	–	–	–	55	55
Cash and cash equivalents acquired	48	172	337	64	621

[1] The Banco Sabadell purchase price allocation comprises the purchase price adjustment completed during 2009.

"TEB Sigorta" sets out the acquisition of 100 percent of TEB Sigorta A.Ş., a general insurer based in Turkey, from TEB Mali Yatırımlar A.Ş. (TEB Mali), which the Group completed on March 31, 2008. Total acquisition costs amounted to USD 364 million and included net tangible assets acquired of USD 35 million and identifiable intangible assets, net of deferred tax, of USD 76 million (USD 94 million before tax, mainly relating to distribution arrangements with TEB Mali subsidiaries including Türk Ekonomi Bankası A.Ş. (TEB) for the distribution of general insurance products in Turkey on an exclusive basis). The residual goodwill of USD 253 million represented expected growth opportunities from the banc-assurance partnership with TEB and the expansion of other sales channels.

"Caixa Sabadell" sets out the acquisition of 50 percent of both the life and general insurance companies CaixaSabadell Vida, S.A. de Seguros y Reaseguros (CSV) and CaixaSabadell Companyia d'Assegurances Generals, S.A. (CSG), both of which are based in Spain, from Caixa d'Estalvis de Sabadell (Caixa Sabadell), which the Group completed on August 14, 2008. Total acquisition costs for CSV amounted to USD 300 million and included net tangible assets acquired of USD 128 million and identifiable intangible assets, net of deferred tax, of USD 472 million (USD 674 million before tax, mainly relating to the life insurance distribution agreement with Caixa Sabadell of USD 552 million and to the present value of profits of acquired insurance contracts of USD 122 million). Total acquisition costs for CSG amounted to USD 45 million and included net tangible assets acquired of USD 13 million and identifiable intangible assets, net of deferred tax, of USD 77 million (USD 109 million before tax, relating to the general insurance distribution agreement with Caixa Sabadell). 50 percent of net tangible assets acquired and of identifiable intangible assets, net of deferred tax, reflecting non-controlling interests in CSV and CSG, amounted in total to USD 344 million. The Group has management control of the jointly owned companies and fully consolidates them.

"Banco Sabadell" sets out the acquisition of 50 percent of life insurance, pension and general insurance operations of Banco Sabadell S.A. (Banco Sabadell), all based in Spain, which the Group completed on September 18, 2008. Following price adjustments during 2009 in accordance with the purchase agreement, total acquisition costs for BanSabadell Vida S.A. de Seguros y Reaseguros (BSV) and BanSabadell Pensiones E.G.F.P., S.A. (BSP) amounted to USD 905 million (initially USD 832 million) and included net tangible assets acquired of USD 157 million (initially USD 181 million) and identifiable intangible assets, net of deferred tax, of USD 1,652 million (initially USD 1,483 million). Identifiable intangible assets before tax ammounted to USD 2,358 million (initially USD 2,117 million), mainly relating to the life insurance and pension distribution agreement with Banco Sabadell of USD 1,918 million (initially

USD 1,665 million) and the present value of profits of acquired insurance contracts of USD 437 million (initially USD 449 million). Total acquisition costs for BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros (BSG) amounted to USD 145 million and included net tangible assets acquired of USD 10 million and identifiable intangible assets, net of deferred tax, of USD 280 million (USD 396 million before tax, mainly relating to the general insurance distribution agreement with Banco Sabadell). 50 percent of net tangible assets acquired and of identifiable intangible assets, net of deferred tax, reflecting non-controlling interests in BSV, BSP and BSG, amounted in total to USD 1,049 million (initially USD 976 million). The Group has management control of the three jointly owned companies and fully consolidates them.

"Other" sets out in aggregate the acquisition of 100 percent of the Italian life insurer DWS Vita S.p.A. (DWS Vita), completed on June 3, 2008, the acquisition of 50 percent of Can Soluciones Integrales S.A. (Can Soluciones), a general insurance company based in Spain, completed on June 20, 2008, and the acquisition of 100 percent of Baden-Badener Versicherung Aktiengesellschaft (Baden-Badener), an accident insurer based in Germany, completed on August 5, 2008. Further details of these acquisitions are given below.

Total acquisition costs for DWS Vita amounted to USD 138 million and included net tangible assets acquired of USD 64 million and identifiable intangible assets, net of deferred tax, of USD 75 million (USD 110 million before tax, relating to the present value of profits of acquired insurance contracts of USD 69 million and a distribution agreement of USD 41 million which DWS Vita entered into with Finanza & Futuro Banca S.p.A. for the distribution of life insurance products as part of the transaction).

Total acquisition costs for Can Soluciones amounted to USD 133 million, including the present value of an expected earn-out payment of USD 55 million, and included net tangible assets acquired of USD 14 million and identifiable intangible assets, net of deferred tax, of USD 140 million (USD 199 million before tax, relating to a distribution agreement with Caja de Ahorros y Monte de Piedad de Navarra). The residual goodwill of USD 56 million represented expected synergies from the efficiencies gained through a service level agreement with Can Soluciones relating to the management and administration of the business. 50 percent of net tangible assets acquired and of identifiable intangible assets, net of deferred tax, reflecting non-controlling interests in Can Soluciones, amounted to USD 77 million. The Group has management control of the jointly-owned company, which is therefore fully consolidated.

Total acquisition costs for Baden-Badener amounted to USD 40 million and included net tangible assets acquired of USD 25 million, identifiable intangible assets, net of deferred tax, of USD 5 million (USD 6 million before tax), and residual goodwill of USD 10 million, representing expected synergies and growth opportunities.

Table 5.2 does not include the acquisition of the remaining 34 percent of Zurich Retail Insurance Company Ltd., Russia, for USD 203 million which the Group completed on November 20, 2008. The acquisition had no material impact on the Group's financial statements and did not affect its scope of consolidation, as the present value of the estimated deferred consideration for the 34 percent had been recognized in 2007.

The acquisition of 87.35 percent of Companhia de Seguros Minas Brasil, of 100 percent of Minas Brasil Seguradora Vida e Previdência S.A. and the distribution agreement with Banco Mercantil do Brasil S.A. was completed on November 28, 2008. Initial accounting has been finalized during 2009 of which details are presented in section "Transactions in 2009" and in table 5.1. The initial purchase price for both companies including the consideration for the distribution agreement amounted to USD 127 million. As of December 31, 2008, the Group was still in the process of preparing the initial accounting and, therefore, the initial purchase price was recorded as an unconsolidated investment in other assets and is not included in table 5.2.

The impact of the acquisitions on the income statement of the year ended December 31, 2008 was immaterial.

Divestments

During the year ended December 31, 2008, the Group sold all of its shares in Financial Lifestyle Solutions Pty Ltd based in Australia, of Nova Scotia Company, a Canadian investment holding company, and of Zurich Insurance (Guam), Inc., recording in aggregate a pre-tax gain on disposal of USD 16 million. Total cash and net assets divested in 2008 were USD 19 million and USD 12 million, respectively. The total consideration received in 2008, net of transaction costs of USD 2 million, amounted to USD 13 million.

6. Investments

Investment result for total investments

Table 6.1a

in USD millions, for the years ended December 31	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2009	2008	**2009**	2008	**2009**	2008
Cash and cash equivalents	175	647	94	(60)	269	588
Equity securities	1,601	2,971	10,536	(25,444)	12,138	(22,473)
Debt securities	5,861	6,652	(148)	(1,924)	5,712	4,728
Real estate held for investment	804	933	(352)	(1,596)	452	(664)
Mortgage loans	575	647	(235)	(29)	339	618
Other loans	724	646	22	2	746	648
Equity method accounted investment	4	8	(4)	(4)	–	4
Other investments[1]	68	220	(498)	1,246	(431)	1,467
Investment result, gross	9,812	12,725	9,414	(27,809)	19,226	(15,084)
Investment expenses	(669)	(842)	–	–	(669)	(842)
Investment result, net	**9,143**	**11,883**	**9,414**	**(27,809)**	**18,557**	**(15,926)**

[1] Including net capital gains/(losses) on derivative financial instruments of USD (499) million and USD 1,241 million for the years ended December 31, 2009 and 2008, respectively, of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 33 million and USD 5 million for the years ended December 31, 2009 and 2008, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 144 million and USD 179 million for the years ended December 31, 2009 and 2008, respectively.

Investment result for Group investments

Table 6.1b

in USD millions, for the years ended December 31	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2009	2008	**2009**	2008	**2009**	2008
Cash and cash equivalents	103	493	6	1	109	494
Equity securities	346	604	(264)	(2,827)	82	(2,223)
Debt securities	5,527	6,066	(536)	(1,573)	4,991	4,494
Real estate held for investment	464	491	131	210	594	700
Mortgage loans	575	647	(235)	(29)	339	618
Other loans	718	645	22	2	740	648
Equity method accounted investment	4	8	(4)	(4)	–	4
Other investments[1]	12	5	(543)	1,327	(531)	1,331
Investment result, gross for Group investments	7,748	8,959	(1,423)	(2,893)	6,324	6,066
Investment expenses for Group investments	(243)	(261)	–	–	(243)	(261)
Investment result, net for Group investments	**7,505**	**8,698**	**(1,423)**	**(2,893)**	**6,082**	**5,805**

[1] Including net capital gains/(losses) on derivative financial instruments of USD (543) million and USD 1,352 million for the years ended December 31, 2009 and 2008, respectively, of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 33 million and USD 5 million for the years ended December 31, 2009 and 2008, respectively.

For the years ended December 31, 2009 and 2008, respectively, impairment charges on Group investments included in net capital losses amounted to USD 1,394 million and USD 2,457 million, of which impairment charges on mortgage loans and other investments comprised USD 231 million and USD 49 million, respectively. For the year 2009 impairment charges on mortgage loans are primarily attributable to the Group's banking activities.

Investment result for unit-linked contracts

Table 6.1c

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments		Investment result	
	2009	2008	**2009**	2008	**2009**	2008
Cash and cash equivalents	72	154	88	(60)	160	94
Equity securities	1,256	2,367	10,800	(22,617)	12,055	(20,250)
Debt securities	334	586	387	(351)	721	235
Real estate held for investment	341	442	(483)	(1,806)	(142)	(1,364)
Other loans	7	–	–	–	7	–
Other investments[1]	56	216	45	(80)	101	135
Investment result, gross for unit-linked contracts	2,064	3,766	10,837	(24,916)	12,901	(21,150)
Investment expenses for unit-linked contracts	(426)	(581)	–	–	(426)	(581)
Investment result, net unit-linked contracts	**1,638**	**3,185**	**10,837**	**(24,916)**	**12,475**	**(21,731)**

[1] Including net capital gains/(losses) on derivative financial instruments of USD 45 million and USD (111) million for the years ended December 31, 2009 and 2008, respectively.

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

Table 6.2

in USD millions, for the years ended December 31	Equity securities		Debt securities		Total	
	2009	2008	**2009**	2008	**2009**	2008
Securities at fair value through profit or loss:	11,273	(23,672)	392	(548)	11,666	(24,221)
Net capital gains/(losses) on Group investments						
Trading securities	*69*	(319)	*(2)*	(23)	*66*	(343)
Securities designated at fair value through profit or loss	*405*	(736)	*7*	(173)	*412*	(909)
Net capital gains/(losses) for unit-linked contracts	10,800	(22,617)	387	(351)	11,187	(22,968)
Available-for-sale securities:	(737)	(1,772)	(477)	(1,307)	(1,214)	(3,078)
Realized capital gains on Group investments	323	556	988	458	1,312	1,013
Realized capital losses on Group investments	(471)	(1,130)	(955)	(622)	(1,426)	(1,752)
Impairments on Group investments	(590)	(1,197)	(510)	(1,142)	(1,100)	(2,340)
Held-to-maturity securities[1]	–	–	(64)	(69)	(64)	(69)
Total net capital gains/(losses) and impairments	**10,536**	**(25,444)**	**(148)**	**(1,924)**	**10,388**	**(27,368)**

[1] Including impairments on held-to-maturity securities of USD 63 million and USD 69 million for the years ended December 31, 2009 and 2008, respectively.

Details of total investments by category

Table 6.3a

as of December 31	Total investments			
	2009		2008	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	17,471	5.9	16,888	6.6
Equity securities:				
Fair value through profit or loss	83,329	28.2	65,150	25.3
of which: trading	*879*	*0.3*	*1,419*	*0.6*
of which: trading equity portfolios in capital markets and banking activities	*461*	*0.2*	*786*	*0.3*
Available-for-sale	7,432	2.5	9,307	3.6
Total equity securities	90,761	30.7	74,458	28.9
Debt securities:				
Fair value through profit or loss	17,037	5.8	16,801	6.5
of which: trading	*82*	*0.0*	*186*	*0.1*
Available-for-sale	124,358	42.1	105,752	41.0
Held-to-maturity	5,143	1.7	5,244	2.0
Total debt securities	146,538	49.6	127,797	49.6
Real estate held for investment	11,686	4.0	11,601	4.5
Mortgage loans	12,736	4.3	12,820	5.0
Other loans	16,001	5.4	13,990	5.4
Equity method accounted investments	232	0.1	220	0.1
Total investments	**295,425**	**100.0**	**257,773**	**100.0**

Details of Group investments by category

Table 6.3b

as of December 31	Group investments			
	2009		2008	
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	11,631	5.9	12,428	6.9
Equity securities:				
Fair value through profit or loss	5,018	2.6	4,996	2.8
of which: trading	*879*	*0.4*	*1,419*	*0.8*
of which: trading equity portfolios in capital markets and banking activities	*461*	*0.2*	*786*	*0.4*
Available-for-sale	7,432	3.8	9,307	5.2
Total equity securities	12,450	6.3	14,303	8.0
Debt securities:				
Fair value through profit or loss	6,843	3.5	7,291	4.1
of which: trading	*82*	*0.0*	*186*	*0.1*
Available-for-sale	124,358	63.4	105,752	58.9
Held-to-maturity	5,143	2.6	5,244	2.9
Total debt securities	136,344	69.5	118,287	65.9
Real estate held for investment	7,789	4.0	7,524	4.2
Mortgage loans	12,736	6.5	12,820	7.1
Other loans	15,077	7.7	13,988	7.8
Equity method accounted investments	232	0.1	220	0.1
Total Group investments	**196,258**	**100.0**	**179,570**	**100.0**

Cash and investments with a carrying value of USD 4,908 million and USD 5,235 million were deposited on behalf of regulatory authorities as of December 31, 2009 and 2008, respectively.

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

As of December 31, 2009 and 2008, investments included USD 5,073 million and USD 2,917 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Cash and cash equivalents included USD 493 million and USD 177 million of cash received as collateral for loaned securities as of December 31, 2009 and 2008, respectively. Liabilities for cash collateral received for securities lending comprised USD 508 million and USD 182 million as of December 31, 2009 and 2008, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 5,046 million and USD 3,274 million as of December 31, 2009 and 2008, respectively. The Group can sell or repledge the collateral only in the event of a default by a counterparty.

As of December 31, 2009 and 2008, respectively, debt securities with a carrying value of USD 3,938 million and USD 3,608 million have been sold to financial institutions under short-term sale and repurchase agreements. These securities continue to be recognized as investments in the balance sheets. Obligations to repurchase these securities comprised USD 3,976 million and USD 3,608 million as of December 31, 2009 and 2008, respectively. The Group retains the rights to the risks and rewards of ownership of loaned securites and securities under short-term sale and repurchase agreements. These risks and rewards 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			
	2009		2008	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	5,840	5.9	4,460	5.7
Equity securities	78,311	79.0	60,154	76.9
Debt securities	10,194	10.3	9,510	12.2
Real estate held for investment	3,897	3.9	4,077	5.2
Other loans	924	0.9	2	0.0
Total investments for unit-linked contracts	**99,167**	**100.0**	**78,203**	**100.0**

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

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	
	2009	2008	2009	2008	2009	2008
Debt securities:						
< 1 year	357	571	9,973	7,790	1,403	2,665
1 to 5 years	1,517	1,190	42,911	34,156	5,098	3,297
5 to 10 years	1,189	1,220	26,243	21,924	4,158	4,632
> 10 years	2,081	2,263	22,941	19,854	4,848	4,769
Subtotal	5,143	5,244	102,068	83,722	15,508	15,363
Mortgage and asset-backed securities:						
< 1 year	–	–	1,288	759	69	68
1 to 5 years	–	–	5,323	4,891	370	307
5 to 10 years	–	–	5,114	5,392	351	323
> 10 years	–	–	10,565	10,988	741	741
Subtotal	–	–	22,290	22,030	1,530	1,438
Total	**5,143**	**5,244**	**124,358**	**105,752**	**17,037**	**16,801**

The analysis is provided by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Available-for-sale securities

Table 6.5

in USD millions, as of December 31	Cost or amortized cost[1]		Gross unrealized gains		Gross unrealized losses		Fair value	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Equity securities								
Common stock	3,809	5,052	827	352	(289)	(1,015)	4,346	4,389
Unit trusts	3,359	5,556	166	157	(586)	(944)	2,939	4,769
Non-redeemable preferred stock	153	190	10	–	(15)	(40)	148	149
Total equity securities	**7,320**	**10,798**	**1,002**	**509**	**(890)**	**(1,999)**	**7,432**	**9,307**
Debt securities								
Swiss federal and cantonal governments	2,788	3,657	199	212	(2)	(1)	2,986	3,868
United Kingdom government	7,932	5,748	176	397	(30)	(2)	8,078	6,143
United States government	8,050	5,582	129	484	(237)	(38)	7,942	6,028
Other governments and supra-nationals	29,727	24,987	1,060	1,042	(233)	(207)	30,554	25,821
Corporate securities	51,757	44,101	2,186	1,098	(1,454)	(3,378)	52,489	41,821
Mortgage and asset-backed securities	22,787	24,412	556	310	(1,053)	(2,692)	22,290	22,030
Redeemable preferred stocks	18	56	1	–	–	(15)	19	41
Total debt securities	**123,059**	**108,544**	**4,308**	**3,542**	**(3,009)**	**(6,334)**	**124,358**	**105,752**

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

Fair value through profit or loss securities

Table 6.6

as of December 31	Group investments				Investments for unit-linked products		Total investments	
	2009		2008		2009	2008	2009	2008
	USD millions	**% of total**	USD millions	% of total	**USD millions**	USD millions	**USD millions**	USD millions
Equity securities:								
Common stock	4,177	35.2%	4,402	35.8%	42,773	33,068	46,950	37,470
of which: trading equity portfolios in capital markets and banking activities	*461*	*3.9%*	*786*	*6.4%*	–	–	*461*	*786*
of which: common stock portfolios backing participating with profit policyholder contracts	*674*	*5.7%*	*630*	*5.1%*	–	–	*674*	*630*
Unit trusts	840	7.1%	594	4.8%	35,521	27,069	36,361	27,663
Non-redeemable preferred stock	–	0.0%	–	0.0%	17	17	17	17
Total equity securities	**5,018**	**42.3%**	**4,996**	**40.7%**	**78,311**	**60,154**	**83,329**	**65,150**
Debt securities:								
Debt securities	5,621	47.4%	6,111	49.7%	9,887	9,252	15,507	15,363
of which: trading debt securities in capital markets and banking activities	*20*	*0.2%*	*121*	*1.0%*	–	–	*20*	*121*
Mortgage and asset-backed securities	1,222	10.3%	1,180	9.6%	308	258	1,530	1,438
Total debt securities	**6,843**	**57.7%**	**7,291**	**59.3%**	**10,194**	**9,510**	**17,037**	**16,801**
Total	**11,860**	**100.0%**	**12,287**	**100.0%**	**88,505**	**69,665**	**100,366**	**81,952**

Held-to-maturity debt securities

Table 6.7

as of December 31	2009		2008	
	USD millions	**% of total**	USD millions	% of total
Swiss federal and cantonal governments	1,635	31.8	1,590	30.3
United States government	1,310	25.5	1,669	31.8
Other governments and supra-nationals	849	16.5	819	15.6
Corporate securities	1,350	26.2	1,165	22.2
Total held-to-maturity debt securities	**5,143**	**100.0**	**5,244**	**100.0**

Real estate held for investment (total investments)

Table 6.8

in USD millions	Total	
	2009	2008
As of January 1	11,601	15,386
Additions and improvements	431	664
Disposals	(616)	(1,061)
Market value revaluation	(308)	(1,823)
Transfer from/(to) assets held for own use	(47)	(45)
Foreign currency translation effects	625	(1,520)
As of December 31	**11,686**	**11,601**

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

Equity method accounted investments

Table 6.9

in USD millions, as of December 31	Carrying value		Share in profit		Ownership interest	
	2009	2008	**2009**	2008	**2009**	2008
Associates:						
DKN Financial Group Limited	60	50	(3)	2	30.99%	31.84%
Seven Investment Management Limited	17	15	–	(3)	49.00%	49.00%
Other	12	16	(1)	1	–	–
Joint ventures:						
MCIS Zurich Insurance Berhad	37	37	1	2	40.00%	40.00%
Other	11	9	1	1	–	–
SPEs:[1]						
Euclid Office, L.P.	28	25	1	1	99.00%	99.00%
Other	68	69	4	3	–	–
Total	**232**	**220**	**4**	**8**	**–**	**–**

[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 pick up is usually 99% and the investment balance approximates the value of the SPE's assets. These entities were specifically designed to facilitate U.S. commercial property sale and leaseback transactions.

Net unrealized gains/(losses) on group investments included in shareholders' equity

Table 6.10

in USD millions, as of December 31	Total	
	2009	2008
Equity securities: available-for-sale	112	(1,490)
Debt securities: available-for-sale	1,298	(2,792)
Other	(20)	(2)
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(665)	236
Life deferred acquisition costs	(98)	256
Deferred income taxes	(287)	837
Non-controlling interests	(15)	(18)
Total[1]	**326**	**(2,973)**

[1] Net unrealized gains/(losses) include net losses arising on cash flow hedges of USD (9) million and USD (16) million as of December 31, 2009 and 2008, respectively.

7. Derivative financial instruments and hedge accounting

The Group uses derivatives mainly for economic hedging purposes in order to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates. The Group may also use derivatives to protect itself against the credit risk of counterparties.

In certain circumstances these instruments may meet the requirements of an effective hedge for accounting purposes. Where this is the case, hedge accounting may be applied. Details of the accounting for these instruments are set out in table 7.2.

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2009 and 2008, respectively. Whilst these notional amounts express the extent of the Group's involvement in derivative transactions, they are not however representative of amounts at risk. Fair values for derivatives are included in the consolidated balance sheets in the lines Other Assets and Other Liabilities.

Table 7.1

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

in USD millions, as of December 31						2009			2008
	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	23	179	863	1,064	102	(11)	1,277	168	(23)
Swaptions	167	1,114	1,845	3,126	126	(14)	2,976	260	(21)
Caps	45	213	–	259	–	–	531	–	–
Exchange traded									
Futures	1,969	3	–	1,972	–	–	761	2	–
Total interest rate contracts	**2,204**	**1,509**	**2,708**	**6,422**	**228**	**(24)**	**5,545**	**430**	**(44)**
Equity contracts:									
OTC									
Puts	2,050	3,152	1,853	7,055	286	(203)	4,871	445	(288)
Calls	1,546	1,847	480	3,874	58	(243)	1,593	32	(32)
Exchange traded									
Futures	411	2	–	413	–	–	–	–	–
Total equity contracts	**4,008**	**5,001**	**2,333**	**11,342**	**344**	**(446)**	**6,464**	**477**	**(319)**
Foreign exchange contracts:									
OTC									
Cross Currency Swaps	–	737	–	737	21	–	81	–	(28)
Forwards	12,915	–	–	12,915	109	(106)	15,526	314	(956)
Total foreign exchange contracts	**12,915**	**737**	**–**	**13,652**	**131**	**(106)**	**15,606**	**315**	**(985)**
Credit contracts:									
OTC									
Credit Default Swaps	187	462	–	649	3	(8)	776	91	(6)
Total credit contracts	**187**	**462**	**–**	**649**	**3**	**(8)**	**776**	**91**	**(6)**
Other contracts:									
OTC									
Puts	2	–	1,043	1,046	–	(40)	938	–	(32)
Total Return Swaps	–	–	71	71	–	(1)	74	–	(2)
Total other contracts	**2**	**–**	**1,114**	**1,116**	**–**	**(41)**	**1,012**	**–**	**(34)**
Total	**19,316**	**7,709**	**6,155**	**33,180**	**706**	**(625)**	**29,403**	**1,311**	**(1,388)**

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 uses exchange traded contracts, which are standardized and liquid and are not considered to carry counterparty risk. Over the counter (OTC) contracts are otherwise applied and comprise swaps, swaptions and caps. In terms of notional amounts, the major OTC positions are swaptions that are mostly long receiver swaptions to hedge against the risk of a fall in interest rates.

Equity contracts

Equity contracts are entered into mostly on a portfolio level to protect equity investments against a decline in equity market prices and to manage the risk return profile of equity exposures. Most equity contracts are purchased put options. The change in the notional amounts of put options between December 31, 2009 and December 31, 2008 was mainly driven by entering into new long equity put options. Most of the equity call options are used in collar structures to mitigate the overall hedging costs or to hedge equity risks embedded in guaranteed equity bonds. Written put positions are mostly hedged by long put positions or backed by cash collateral.

Foreign exchange contracts

Foreign exchange contracts consist mainly of forward contracts which are used to hedge the Group's foreign currency exposures and manage currency mismatches on the balance sheets.

The notional amounts of foreign exchange forwards decreased by USD 2,611 million between December 31, 2008 and December 31, 2009, mostly due to a decrease in underlying foreign exchange exposures. The Group has also entered into new swaps positions to hedge the foreign currency risk arising from certain debt issued.

Credit contracts

Credit default swaps offer protection to the owner in case a credit event occurs. The Group is very selective in its purchase of credit default swaps. As of both December 31, 2009, and 2008 these related to reinsurance receivables.

Other contracts

Other contracts predominantly include stable value options (SVOs), which include written equity put options. SVOs have been provided by the Group to certain bank and corporate customers (policyholders) in the U.S., in respect of the investment returns which arise on investments underlying Bank Owned Life Insurance (BOLI) and Company Owned Life Insurance (COLI) policies.

Premiums received from policyholders under these policies are invested in separate account portfolios. Throughout the life of the policies, policyholders are entitled, in addition to mortality cover, to tax-exempt investment returns linked to the performance of the underlying investments. The policies are long duration contracts providing charges and benefits over a policy life that can be greater than 45 years. SVOs reduce the volatility of the policyholders' investment returns. In the event that a policy is surrendered, the policyholder would be entitled to recover the excess of the notional SVO derived value over the market value of the underlying investments. Certain policy features as well as certain regulations provide disincentives for surrender. We monitor the risk of surrender on an ongoing basis and consider the likelihood of surrender the one input factor to the model to determine the fair value of the SVOs. During 2009, one policyholder surrendered the contract, resulting in a net loss of USD 5 million after applicable reductions. Another policyholder elected to eliminate certain certificates under the policies. No losses were incurred on this transaction. The fair value of the derivative liability recognized in respect of the SVOs, included in written put options, was USD 37 million and USD 23 million as of December 31, 2009 and 2008, respectively. The difference between the notional SVO derived value and market value of the underlying investments for BOLI/COLI policies was USD 1,043 million and USD 929 million as of December 31, 2009 and 2008, respectively, representing the total net market value loss after surrender charges in the unlikely event that all policies would have been surrendered on those dates.

The following table sets out details of fair value and cash flow hedges:

Table 7.2

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

in USD millions, as of December 31	2009						2008		
	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	–	244	614	858	204	–	975	141	–
Currency swaps	–	1	70	71	–	(29)	–	–	–
Total fair value hedges	**–**	**245**	**684**	**929**	**204**	**(29)**	**975**	**141**	**–**
Cash flow hedges:									
Options on interest rate swaps	–	–	3,474	3,474	171	–	3,373	209	–
Currency swaps	–	975	793	1,768	255	–	1,114	63	–
Interest rate swaps	155	257	154	566	2	(6)	–	–	–
Total cash flow hedges	**155**	**1,232**	**4,421**	**5,808**	**428**	**(6)**	**4,487**	**272**	**–**

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-denominated debt issued by the Group. A fair value hedge relationship on the EUR 500 million 4.5 percent subordinated bond due for repayment in June 2025 issued by Zurich Finance (USA), Inc. (see note 21), was entered into at the issuance of the debt instrument in 2005 and will end on June 15, 2015.

A fair value hedge relationship on 20 percent of the EUR 1 billion 4.5 percent senior debt due for repayment in 2014 issued by Zurich Finance (USA), Inc. (see note 21), was entered into on January 1, 2007 and will end at maturity of the underlying debt instrument in 2014.

The Group also has fair value hedge relationships consisting of currency swaps to protect the certain non Euro-denominated fixed income securities from foreign currency fluctuation.

Changes in the fair value of the derivatives designated as fair value hedges and changes in the fair value of the hedged item in relation to the risk being hedged are recognized in income.

Gains and losses arising from fair value hedges are as follows:

Table 7.3

Gains/(losses) arising from fair value hedges

in USD millions, as of December 31	2009	2008
Gains/(losses)		
on hedging instruments[1]	*62*	*21*
on hedged item attributable to the hedged risk	*(57)*	*(26)*

[1] Excluding current interest income, which is booked on the same line as an offset to interest expense on 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 2011, 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 comprehensive income. Subsequently the gains or losses will be recycled to income between the years ended December 31, 2011 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 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 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, 2009 the following cash flow hedge relationships were in place (see note 22):

- 80 percent of the EUR 1 billion 4.5 percent senior bond due 2014 issued by Zurich Finance (USA), Inc. entered on January 1, 2007 ending September 17, 2014.

- 100 percent of EUR 600 million 6.5 percent senior bond due October 2015 issued by Zurich Finance (USA), Inc. entered on April 14, 2009 ending October 15, 2015.

The Group has also designated cash flow hedges consisting of interest rate swaps to eliminate its exposure to interest rates on Floating Rate Notes held by the Group.

The net gains deferred in shareholders' equity on derivatives designated as cash flow hedges were USD 23 million and USD 107 million before tax for the years ended December 31, 2009 and 2008, respectively.

The portion recognized in income was a gain of USD 96 million and a loss of USD 54 million before tax for the years ended December 31, 2009 and 2008, respectively, as an offset to the foreign currency revaluation on the underlying hedged debt.

A net gain of USD 32 million and USD 2 million for the years ended December 31, 2009 and 2008, respectively, was recognized in net capital gains/(losses) and impairments due to a hedge ineffectiveness.

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	2009	2008
Gross		
Reserves for losses and loss adjustment expenses	68,086	65,218
Reserves for unearned premiums	17,676	16,399
Future life policyholders' benefits	78,589	76,218
Policyholders' contract deposits and other funds	18,857	17,047
Reserves for unit-linked contracts	58,204	47,297
Total reserves for insurance contracts, gross	241,412	222,179
Ceded		
Reserves for losses and loss adjustment expenses	(12,182)	(12,232)
Reserves for unearned premiums	(2,000)	(1,889)
Future life policyholders' benefits	(2,076)	(1,873)
Policyholders' contract deposits and other funds	(2,457)	(2,690)
Reinsurers' share of reserves for insurance contracts, ceded[1]	(18,715)	(18,684)
Net		
Reserves for losses and loss adjustment expenses	55,903	52,986
Reserves for unearned premiums	15,676	14,510
Future life policyholders' benefits	76,514	74,345
Policyholders' contract deposits and other funds	16,400	14,357
Reserves for unit-linked contracts	58,204	47,297
Total reserves for insurance contracts, net	**222,697**	**203,495**

[1] Gross of allowance for uncollectible amounts of USD 88 million and USD 89 million as of December 31, 2009, and 2008, respectively.

Development of reserves for losses and loss adjustment expenses

Table 8.2

in USD millions	Gross		Ceded		Net	
	2009	2008	2009	2008	2009	2008
As of January 1	65,218	67,890	(12,232)	(13,179)	52,986	54,712
Losses and loss adjustment expenses incurred:						
Current year	28,308	28,296	(2,610)	(2,879)	25,698	25,416
Prior years	(933)	(1,354)	(126)	83	(1,059)	(1,271)
Total incurred	27,375	26,942	(2,736)	(2,796)	24,639	24,145
Losses and loss adjustment expenses paid:						
Current year	(11,178)	(10,190)	536	591	(10,642)	(9,599)
Prior years	(15,547)	(15,080)	2,500	2,528	(13,047)	(12,551)
Total paid	(26,725)	(25,269)	3,036	3,119	(23,689)	(22,150)
Acquisitions/(divestments) of companies and businesses	103	105	1	(28)	104	77
Foreign currency translation effects	2,114	(4,450)	(251)	653	1,863	(3,797)
As of December 31	**68,086**	**65,218**	**(12,182)**	**(12,232)**	**55,903**	**52,986**

The Group establishes loss reserves, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates or judgments are reflected in the results of operations in the period in which estimates and judgments are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The reserves for losses and loss adjustment expenses are determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Table 8.2 shows the development of reserves for losses and loss adjustment expenses during the year. The increase in the total net reserves during the year included USD 1,059 million favorable development emerging from reserves established in prior years, after allowing for asbestos charges of USD 539 million. This favorable development is primarily attributable to our General Insurance business and breaks down into many individual movements by Business Division, country, line of business, and accident year. In the Global Corporate segment, favorable development of USD 257 million was approximately equally shared between North America and the rest of the world. North America Commercial favorable development of USD 146 million arose mostly from program and surety business. Europe General Insurance favorable development of USD 487 million arose from several European countries besides Italy where we had a negative development of USD 100 million. The remaining favorable development came from Group Reinsurance, International Markets, and the assumed business from Farmers Re; this was somewhat offset by adverse development at Centre.

Development of insurance losses, net

Table 8.3

in USD millions, as of December 31	2001	2002	2003	2004	2005	2006	2007	2008	**2009**
Gross reserves for losses and loss adjustment expenses	37,694	45,306	51,068	57,765	60,425	64,535	67,890	65,218	68,086
Reinsurance recoverable	(13,605)	(14,940)	(14,055)	(14,279)	(14,231)	(13,722)	(13,179)	(12,232)	(12,182)
Initial net reserves for losses and loss adjustment expenses	24,089	30,366	37,013	43,486	46,194	50,814	54,712	52,986	55,903
Cumulative paid as of December 31:									
One year later	*(7,976)*	*(8,923)*	*(9,930)*	*(9,464)*	*(11,423)*	*(11,237)*	*(12,551)*	*(13,047)*	
Two years later	*(12,855)*	*(14,472)*	*(15,550)*	*(16,273)*	*(18,044)*	*(18,362)*	*(19,660)*		
Three years later	*(16,698)*	*(18,001)*	*(20,407)*	*(21,234)*	*(23,077)*	*(23,421)*			
Four years later	*(19,255)*	*(21,390)*	*(23,941)*	*(24,945)*	*(26,850)*				
Five years later	*(21,634)*	*(23,814)*	*(26,616)*	*(27,798)*					
Six years later	*(23,471)*	*(25,799)*	*(28,668)*						
Seven years later	*(24,849)*	*(27,442)*							
Eight years later	*(26,166)*								
Net reserves re-estimated as of December 31:									
One year later	*26,908*	*32,239*	*38,977*	*43,627*	*45,976*	*49,594*	*53,441*	*51,927*	
Two years later	*28,471*	*34,471*	*40,413*	*45,006*	*45,827*	*48,642*	*52,559*		
Three years later	*30,636*	*36,118*	*42,004*	*45,325*	*45,297*	*48,127*			
Four years later	*31,784*	*37,691*	*42,254*	*45,294*	*45,249*				
Five years later	*33,326*	*37,880*	*42,470*	*45,604*					
Six years later	*33,799*	*38,282*	*43,017*						
Seven years later	*34,004*	*38,951*							
Eight years later	*34,716*								
Cumulative (deficiency)/ redundancy	(10,627)	(8,585)	(6,004)	(2,118)	945	2,686	2,152	1,059	
Cumulative (deficiency)/ redundancy as a percentage of initial net reserves	(44.1%)	(28.3%)	(16.2%)	(4.9%)	2.0%	5.3%	3.9%	2.0%	
Gross reserves re-estimated as of December 31, 2009	52,433	56,977	59,655	61,197	60,379	61,815	65,565	64,285	
Cumulative (deficiency)/ redundancy	(14,739)	(11,671)	(8,587)	(3,432)	46	2,720	2,325	933	
Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves	(39.1%)	(25.8%)	(16.8%)	(5.9%)	0.1%	4.2%	3.4%	1.4%	

Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Group established in 2001 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. 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, 2009. 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 our 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 may not 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	2009		2008	
	Gross	**Net**	Gross	Net
Asbestos				
As of January 1	3,001	2,523	3,799	3,238
Losses and loss adjustment expenses incurred	652	539	240	196
Losses and loss adjustment expenses paid	(299)	(281)	(339)	(278)
Foreign currency translation effects	251	217	(699)	(632)
As of December 31	**3,604**	**2,998**	**3,001**	**2,523**
Environmental				
As of January 1	332	277	394	326
Losses and loss adjustment expenses incurred	7	4	(11)	–
Losses and loss adjustment expenses paid	(61)	(40)	(57)	(51)
Foreign currency translation effects	1	1	6	2
As of December 31	**280**	**242**	**332**	**277**

Management has considered asbestos, environmental and latent injury claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Group continues to be advised of claims asserting injuries from toxic waste, hazardous materials and other environmental pollutants, alleged damages to cover the clean-up costs of hazardous waste dump sites relating to policies written in prior years and indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, together with increased medical diagnostic capabilities and awareness have often caused actual loss development to exhibit more variation than in other lines. Such claims require specialized reserving techniques and the uncertainty of the ultimate cost of these types of claims has tended to be greater than the uncertainty relating to standard lines of business. Reserves for asbestos increased by USD 603 million gross and USD 475 million net during 2009. This increase was almost entirely driven by strengthening of UK asbestos reserves in respect of mesothelioma claims. This follows the annual review of UK Disease claims, taking account of emerging experience and developments in external benchmarks, including the publication of revised projections of population deaths by the UK Health and Safety Executive. For this class of claims, the Group's methodology, consistent with industry practice, relies on three key assumptions: the total future population deaths, the number of claims per number of deaths ratio, and the Group's share of market claims. Estimates of all three drivers increased in 2009, based on the Group's own experience and published revised industry experience, and this has been reflected in the increase in reserves.

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	
	2009	2008	**2009**	2008	**2009**	2008
As of January 1	76,218	80,147	(1,873)	(9,258)	74,345	70,889
Premiums and claims[1]	(2,642)	(9,583)	31	6,913	(2,611)	(2,670)
Interest and bonuses credited to policyholders	2,752	2,983	(68)	(252)	2,683	2,730
Change in assumptions	214	(344)	(13)	349	201	5
Acquisitions/transfers[2]	(497)	6,769	–	(281)	(497)	6,489
(Decreases)/increases recorded in shareholders' equity	85	(11)	–	–	85	(11)
Foreign currency translation effects	2,459	(3,744)	(151)	656	2,308	(3,088)
As of December 31	**78,589**	**76,218**	**(2,076)**	**(1,873)**	**76,514**	**74,345**

[1] Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio ceded in 2007 for an amount of USD 7.1 billion were transferred to the reinsurer, resulting in a reduction of gross and ceded future lifepolicyholders' benefits.
[2] The 2009 movement represents the transfer to reserves for unit-linked contracts (see note 1 for further details).

Long-duration contract liabilities included in future life policyholders' benefits result primarily from traditional participating and non-participating life insurance products. Short-duration contract liabilities are primarily accident and health insurance products.

The amount of policyholder dividends to be paid is determined annually by each life insurance subsidiary. Policyholder dividends include life policyholders' share of net income and unrealized appreciation of investments that are required to be allocated by the insurance contract or by local insurance regulations. Experience adjustments relating to future policyholders' benefits and policyholders' contract deposits vary according to the type of contract and the country. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

The impact of changes in assumptions on net future life policyholders' benefits was USD 201 million and USD 5 million for the years ended December 31, 2009 and 2008, respectively. The net changes include the following significant movements:

- interest rate assumptions increased the benefits by USD 11 million in 2009 and by USD 229 million in 2008;
- expense assumptions increased the benefits by USD 2 million in 2009 and reduced them by USD 4 million in 2008;
- longevity assumptions reduced the benefits by USD 12 million in 2009 and increased them by USD 85 million in 2008;
- morbidity assumptions increased the benefits by USD 23 million in 2009 and reduced them by USD 192 million in 2008;
- investment return assumptions reduced the benefits by USD 133 million in 2009 and by USD 118 million in 2008.
- modelling assumptions reduced the benefits by USD 118 million in 2009 and by nil in 2008.

Policyholders' contract deposits and other funds gross

Table 8.6

in USD millions, as of December 31	**2009**	2008
Annuities	2,760	2,393
Universal life and other contracts	10,801	10,365
Policyholder dividends	5,297	4,289
Total	**18,857**	**17,047**

Development of policyholders' contract deposits and other funds

Table 8.7

in USD millions	Gross		Ceded		Net	
	2009	2008	**2009**	2008	**2009**	2008
As of January 1	17,047	18,687	(2,690)	(2,976)	14,357	15,711
Premiums and claims	(681)	(871)	332	384	(349)	(487)
Interest and bonuses credited to policyholders	879	(385)	(90)	(105)	789	(490)
Changes in assumptions	–	(2)	–	1	–	(1)
Acquistions/transfers	1	16	–	(9)	1	7
(Decrease)/increase recorded in shareholders' equity	825	188	–	–	825	188
Foreign currency translation effects	786	(585)	(9)	14	777	(571)
As of December 31	**18,857**	**17,047**	**(2,457)**	**(2,690)**	**16,400**	**14,357**

Development of reserves for unit-linked contracts

Table 8.8

in USD millions	Gross		Ceded		Net	
	2009	2008	**2009**	2008	**2009**	2008
As of January 1	47,297	70,075	–	–	47,297	70,075
Premiums and claims	613	(1,901)	–	–	613	(1,901)
Interest and bonuses credited/(charged) to policyholders	6,616	(12,223)	–	–	6,616	(12,223)
Acquisitions/transfers[1]	587	833	–	–	587	833
Foreign currency translation effects	3,091	(9,486)	–	–	3,091	(9,486)
As of December 31	**58,204**	**47,297**	**–**	**–**	**58,204**	**47,297**

[1] 2009 includes USD 497 million of transfers from future life policyholders' benefits (see note 1 for further details).

Guarantees arising from minimum death benefits (GMDB) and retirement income benefits (GRIB)

Certain products for which policyholders bear in full the credit and market risks associated with the underlying invested funds selected by them contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees. These arise primarily in the subsidiary Kemper Investors Life Insurance Company which has written variable annuity contracts that provide policyholders with certain guarantees related to minimum death and income benefits. The determination of these liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates, annuitization elections and mortality experience. After 2001 the Group no longer issued new variable annuity contracts that provide policyholders with minimum death and retirement income benefit guarantees.

Table 8.9

Information on guaranteed liabilities

in USD millions (except average attained age), as of	12/31/09	12/31/08
Account balance for products with guarantee features		
Gross	1,758	1,966
Ceded	(188)	(187)
Net	**1,570**	**1,778**
Amount at risk from minimum death benefits (GMDB)		
Gross	1,182	1,744
Ceded	(230)	(290)
Net	**952**	**1,453**
Average attained age of policyholders (in years)	**64**	**64**

The net amount at risk is the present value of payouts exceeding the current policyholder account balance assuming the payout criteria in all policies would have been collectively triggered as of the balance sheet date. The net amount at risk is not the same as the fair value of these benefits, as it does not fully take into account the option value accruing to the policyholder. In determining the excess benefit reserve, the Group follows the guidance in the U.S.Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") related to insurance companies and contracts. Under this guidance the new reserve level is determined from expected policyholder benefits net of assessments, coupled with a loss adequacy test on the result taking into account policyholder behavior experience and current market conditions. Policyholder behavior assumptions are updated when statistically relevant changes in behavior have been observed. The liability for future life policyholder benefits net of reinsurance includes an excess benefit reserve of USD 629 million and USD 513 million as of December 31, 2009 and 2008, respectively, with the increase since December 31, 2008 largely due to policyholders' behavior experienced in current market conditions.

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

Liabilities for investment contracts

Table 9.1

in USD millions, as of December 31	2009	2008
Liabilities related to unit-linked investment contracts	40,143	30,397
Liabilities related to investment contracts (amortized cost)	254	122
Liabilities related to investment contracts with DPF	5,728	5,461
Total	**46,124**	**35,979**

Unit-linked investment contracts issued by the Group are recorded at a value reflecting the returns on investment funds which include selected equities, debt securities and derivatives. Policyholders bear the full risk of the returns on these investments.

The value of financial liabilities at amortized cost is based on a discounted cash flow valuation technique. The discount rate is determined by the current market assessment of the time value of money and risk specific to the liability.

Development of liabilities for investment contracts

Table 9.2

in USD millions	2009	2008
As of January 1	35,979	54,485
Premiums and claims	787	(838)
Interest and bonuses charged/(credited) to policyholders	5,864	(8,647)
Acquisitions/transfers	–	790
Increase/(decrease) recorded in shareholders' equity	28	9
Foreign currency translation effects	3,465	(9,819)
As of December 31	**46,124**	**35,979**

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 shareholders' equity. Mandated allocations related to unrealized results and earnings are included in policyholder liabilities and, upon declaration, discretionary bonuses are allocated to policyholders. The changes in the table below represent the increase or decrease in unallocated gains and retained earnings after charging discretionary bonuses to policyholder liabilities.

Development of the equity component relating to contracts with DPF

Table 10

in USD millions	2009	2008
As of January 1	1,221	1,309
Net unrealized (losses)/gains on investments	381	(371)
Current period profit	192	230
Foreign currency translation effects	44	53
As of December 31	**1,837**	**1,221**

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	
	2009	2008	**2009**	2008	**2009**	2008
Losses and loss adjustment expenses	27,375	26,942	(2,736)	(2,796)	24,639	24,145
Life insurance death and other benefits	11,816	11,315	(460)	(778)	11,356	10,538
Change in future life policyholders' benefits	330	(6,870)	(64)	6,999	266	128
Total insurance benefits and losses[1]	**39,522**	**31,387**	**(3,261)**	**3,425**	**36,261**	**34,811**

[1] Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio reinsured in 2007 were transferred to the reinsurer. This transaction had no net impact on the consolidated income statement in 2008, but impacted both gross and ceded change in the future life policyholders' benefits in 2008.

Policyholder dividends and participation in profits

Table 11.2

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2009	2008	**2009**	2008	**2009**	2008
Change in policyholders' contract deposits and other funds	483	(602)	–	40	484	(562)
Change in reserves for unit-linked products	6,911	(13,239)	–	–	6,911	(13,239)
Change in liabilities for investment contracts – unit-linked	5,623	(8,384)	–	–	5,623	(8,384)
Change in liabilities for investment contracts – other	206	147	–	–	206	147
Change in unit-linked liabilities related to UK capital gains tax	(364)	524	–	–	(364)	524
Total policyholder dividends and participation in profits	**12,859**	**(21,554)**	**–**	**40**	**12,859**	**(21,514)**

Underwriting and policy acquisition costs

Table 11.3

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2009	2008	**2009**	2008	**2009**	2008
Amortization of deferred acquisition costs	5,153	4,689	(394)	(458)	4,759	4,231
Amortization of deferred origination costs	110	122	–	–	110	122
Commissions and other underwriting and acquisition expenses[1]	3,713	4,474	(328)	(540)	3,385	3,934
Total underwriting and policy acquisition costs	**8,976**	**9,285**	**(723)**	**(998)**	**8,254**	**8,287**

[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	
	2009	2008	**2009**	2008	**2009**	2008
Change in reserves for unearned premiums	**826**	**1,781**	**(80)**	**(220)**	**746**	**1,560**

12. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 12.1

in USD millions	General Insurance		Global Life		Other segments[1]		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
As of January 1	3,247	3,306	10,768	11,571	308	65	14,323	14,941
Acquisition costs deferred	3,012	2,918	1,793	1,736	1,403	580	6,208	5,234
Amortization	(2,965)	(2,851)	(614)	(1,038)	(1,180)	(341)	(4,759)	(4,230)
Amortization charged/ (credited) to shareholders' equity	–	–	(291)	128	1	2	(290)	130
Transfers[2]	–	–	(28)	–	–	–	(28)	–
Foreign currency translation effects	80	(125)	648	(1,629)	(1)	2	726	(1,752)
As of December 31	**3,374**	**3,247**	**12,276**	**10,768**	**531**	**308**	**16,181**	**14,323**

[1] Net of eliminations from inter-segment transactions.
[2] The 2009 movement represents the reclassification from insurance contracts to investment contracts (see note 1 for further details).

Development of deferred origination costs

Table 12.2

in USD millions	**2009**	2008
As of January 1	770	1,003
Origination costs deferred	96	119
Amortization	(110)	(122)
Transfers[1]	28	–
Foreign currency translation effects	71	(230)
As of December 31	**856**	**770**

[1] The 2009 movement represents the reclassification from insurance contracts to investment contracts (see note 1 for further details).

13. Administrative and other operating expenses

Administrative and other operating expenses

Table 13

in USD millions, for the years ended December 31	**2009**	2008
Wages and salaries	2,908	2,888
Other employee benefits	566	453
Amortization and impairments of assets	878	638
Rent, leasing and maintenance	398	369
Marketing costs	315	372
Life renewal commission	318	309
Premium, asset and other non-income taxes	184	153
IT costs	734	816
Other	947	731
Total	**7,248**	**6,729**

The above numbers reflect the costs by nature after alloaction of certain costs, in particular wages and salaries as well as other employee benefits, on a functional basis.

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	2009	2008
Farmers management fees and other related revenues	**2,690**	**2,458**

Farmers Group, Inc. (FGI) through its attorney-in-fact (AIF) relationship with the Farmers Exchanges, which the Group manages but does not own, is contractually permitted to receive a management fee of up to 20% (25% in the case of the Fire Insurance Exchange) of the gross premiums earned by the Farmers Exchanges for non-claims related services. To enable the Farmers Exchanges to maintain appropriate capital and surplus while offering competitive insurance rates, FGI has historically charged a lower management fee than the maximum allowed. The range of fees has varied by line of business over time and from year to year. During the past five years, aggregate management fees have averaged between 12% and 13% of gross premiums earned by the Farmers Exchanges. The gross earned premiums of the Farmers Exchanges were USD 17,884 million and USD 16,541 million for the years ended December 31, 2009 and 2008, respectively.

15. Receivables

Receivables

Table 15.1

in USD millions, as of December 31	2009	2008
Financial instruments		
Receivables from policyholders	3,415	3,107
Receivables from insurance companies, agents, brokers and intermediaries	5,803	6,348
Receivables arising from ceded reinsurance	1,092	1,166
Other receivables	2,671	2,445
Allowance for impairments[1]	(437)	(457)
Non-financial instruments		
Tax receivables	638	621
Total	**13,182**	**13,229**

[1] Allowance for impairments includes USD 181 million and USD 206 million as of December 31, 2009, and 2008, respectively, for receivables arising from ceded reinsurance.

Receivables are generally settled within one year.

16. Mortgage loans given as collateral and collateralized loans

As part of the Deutscher Herold transaction in 2002, the Group acquired various mortgage loans. Deutscher Herold had previously sold these loans to credit institutions while retaining the related credit and interest risk. Therefore the loans have not been derecognized from the balance sheet and the transaction is reflected as a collateralized borrowing. Accordingly, the loans are recorded as "Mortgage loans given as collateral" and the liability to credit institutions as "Collateralized loans".

Impairment charges of USD 1 million on mortgage loans given as collateral were recorded in income for both years ended December 31, 2009 and 2008.

The table below shows the maturity schedule of collateralized loans as of December 31, 2009 and 2008, respectively.

Maturity schedule - collateralized loans

Table 16

in USD millions, as of December 31	2009		2008	
	Carrying value[1]	**Undiscounted cash flow**[2]	Carrying value[1]	Undiscounted cash flow[2]
< 1 year	134	138	125	133
1 to 2 years	546	560	121	129
2 to 3 years	178	182	556	590
3 to 4 years	92	94	181	192
4 to 5 years	78	80	127	135
> 5 years	74	76	123	133
Total	**1,102**	**1,131**	**1,233**	**1,313**

[1] Allocation to the time bands is based on the expected maturity date.
[2] Allocation to the time bands is based on the earliest contractual maturity.

17. Property and equipment

Table 17.1

Property and equipment – current period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2009	359	1,398	438	767	735	3,697
Less: accumulated depreciation/impairments	–	(547)	(351)	(548)	(361)	(1,808)
Net carrying value as of January 1, 2009	359	851	86	219	374	1,889
Additions, improvements and transfers	–	38	48	156	161	403
Disposals and transfers	(8)	(58)	(2)	(4)	(100)	(171)
Depreciation and impairments	–	(36)	(25)	(108)	(76)	(245)
Foreign currency translation effects	13	32	4	4	13	67
Net carrying value as of December 31, 2009	**364**	**828**	**111**	**267**	**371**	**1,942**
Plus: accumulated depreciation/impairments	–	422	364	604	422	1,811
Gross carrying value as of December 31, 2009	**364**	**1,249**	**475**	**871**	**794**	**3,754**

Table 17.2

Property and equipment – prior period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2008	393	1,577	436	765	615	3,787
Less: accumulated depreciation/impairments	(1)	(571)	(359)	(561)	(324)	(1,815)
Net carrying value as of January 1, 2008	392	1,006	78	204	292	1,972
Additions, improvements and transfers	1	61	36	130	217	445
Disposals and transfers	(31)	(152)	1	(28)	(56)	(265)
Depreciation and impairments	–	(45)	(23)	(87)	(63)	(218)
Foreign currency translation effects	(3)	(20)	(5)	–	(17)	(44)
Net carrying value as of December 31, 2008	**359**	**851**	**86**	**219**	**374**	**1,889**
Plus: accumulated depreciation/impairments	–	547	351	548	361	1,808
Gross carrying value as of December 31, 2008	**359**	**1,398**	**438**	**767**	**735**	**3,697**

The fire insurance value of the Group's own-use property and equipment totalled USD 3,473 million and USD 3,676 million as of December 31, 2009 and 2008, respectively.

18. Goodwill and other intangible assets

Table 18.1

Intangible assets – current period

in USD millions	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relation-ships	Total
Gross carrying value as of January 1, 2009	1,696	2,617	6,112	1,025	11,451
Less: accumulated amortization/impairments	(20)	(1,364)	(1,757)	–	(3,142)
Net carrying value as of January 1, 2009	1,677	1,252	4,355	1,025	8,310
Additions and transfers	548	(8)	935	–	1,475
Divestments and transfers	–	–	(1)	–	(1)
Amortization	–	(51)	(501)	–	(552)
Amortization charged to shareholders' equity	–	(65)	–	–	(65)
Impairments	(12)	(30)	(52)	–	(94)
Foreign currency translation effects	85	39	146	–	269
Net carrying value as of December 31, 2009	**2,297**	**1,137**	**4,882** [1]	**1,025**	**9,342**
Plus: accumulated amortization/impairments	34	1,612	2,263	–	3,909
Gross carrying value as of December 31, 2009	**2,331**	**2,749**	**7,145**	**1,025**	**13,251**

[1] Other intangible assets include software of USD 1,569 million and distribution agreements of USD 3,193 million.

The Group has management control of certain Spanish insurance companies, where it has a 50 percent share and which are therefore fully consolidated. As of December 31, 2009, USD 224 million of the present value of profits of acquired insurance contracts (PVFP) and USD 1,492 million of other intangible assets related to non-controlling interests. In comparison, as of December 31, 2008, USD 267 million of the PVFP and USD 1,387 million of other intangible assets related to non-controlling interests. The increase compared with December 31, 2008 is related to the finalization of the purchase price allocation for Banco Sabadell.

USD 548 million additions to goodwill, USD 4 million additions to PVFP, and USD 106 million additions to other intangible assets resulted from the acquisitions accounted for in 2009 as disclosed in note 5.

Impairment charges of USD 94 million were recorded in income comprising impairments on PVFP of USD 30 million in the Spanish Life operations, goodwill impairments of USD 12 million mainly related to the Spanish General Insurance operations and USD 52 million of impairments of other intangible assets primarily related to other intangible assets with definite life in the Italian Life operations, as well as software in the Banking operations.

Table 18.2

Intangible assets by segment – current period

in USD millions, as of December 31, 2009	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
General Insurance	1,029	–	1,419	–	2,448
Global Life	442	1,137	2,864	–	4,443
Farmers	821	–	372	1,025	2,218
Other Operating Businesses	5	–	219	–	223
Non-Core Businesses	–	–	9	–	9
Net carrying value as of December 31, 2009	**2,297**	**1,137**	**4,882**	**1,025**	**9,342**

Intangible assets – prior period

Table 18.3

in USD millions	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2008	1,560	2,392	2,961	1,025	7,939
Less: accumulated amortization/impairments	(8)	(1,612)	(1,683)	–	(3,303)
Net carrying value as of January 1, 2008	1,553	780	1,278	1,025	4,636
Additions and transfers	337	640	3,655	–	4,631
Divestments and transfers	–	–	(22)	–	(22)
Amortization	–	(56)	(299)	–	(354)
Amortization charged to shareholders' equity	–	50	–	–	50
Impairments	(14)	(64)	(5)	–	(83)
Foreign currency translation effects	(198)	(97)	(252)	–	(548)
Net carrying value as of December 31, 2008	**1,677**	**1,252**	**4,355** [1]	**1,025**	**8,310**
Plus: accumulated amortization/impairments	20	1,364	1,757	–	3,142
Gross carrying value as of December 31, 2008	**1,697**	**2,617**	**6,112**	**1,025**	**11,451**

[1] Other intangible assets include software of USD 1,156 million and distribution agreements of USD 3,052 million.

In 2008 impairment charges of USD 83 million were recorded in income comprising impairment of PVFP of USD 64 million in the UK and German Life operations, impairment of goodwill of USD 14 million as a result of updated cash flow assumptions in the German Life operations and other intangible assets of USD 5 million relating to impairments on capitalized software.

Intangible assets by segment – prior period

Table 18.4

in USD millions, as of December 31, 2008	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
General Insurance	895	–	1,303	–	2,199
Global Life	395	1,252	2,672	–	4,320
Farmers	382	–	182	1,025	1,589
Other Operating Businesses	5	–	185	–	190
Non-Core Businesses	–	–	13	–	13
Net carrying value as of December 31, 2008	**1,677**	**1,252**	**4,355**	**1,025**	**8,310**

19. Other assets

Other assets

Table 19.1

in USD millions, as of December 31	2009	2008
Other financial assets:		
Derivative assets	1,338	1,724
Other assets	199	133
Other non-financial assets:		
Accrued premiums	785	900
Prepaid expenses	286	315
Prepaid insurance benefits	369	392
Other assets	350	630
Total other assets	**3,327**	**4,095**

The undiscounted amounts of the financial assets as of December 31, 2009 and 2008 are not materially different from the carrying amounts.

20. Other liabilities

Other liabilities

Table 20.1

in USD millions, as of December 31	2009	2008
Other financial liabilities:		
Amounts due to reinsurers, agents and other insurance companies	1,996	1,778
Amounts due to investment brokers	853	790
Amounts due to life policyholders	561	559
Liabilities for cash collateral received for securities lending	508	182
Derivative liabilities	660	1,388
Bank deposits	1,800	1,179
Liabilities for defined benefit plans	1,891	2,294
Other liabilities for employee benefit plans	101	105
Other liabilities	6,616	6,264
Other non-financial liabilities:		
Current tax payables	983	1,025
Restructuring provisions	119	88
Premium prepayments and other advances	828	697
Other liabilities	567	594
Total other liabilities	**17,485**	**16,944**

Table 20.2 shows the maturity schedule of other financial liabilities as of December 31, 2009 and 2008, respectively.

Table 20.2

Maturity schedule – other financial liabilities[1]

in USD millions, as of December 31	2009		2008	
	Carrying value[2]	Undiscounted cash flow[3]	Carrying value[2]	Undiscounted cash flow[3]
< 1 year	11,209	11,217	10,704	10,709
1 to 2 years	208	213	183	174
2 to 3 years	551	558	162	170
3 to 4 years	278	286	440	453
4 to 5 years	81	93	98	124
> 5 years	768	1,732	657	1,621
Total	**13,095**	**14,098**	**12,245**	**13,252**

[1] Excluding liabilities for defined benefit plans.
[2] Allocation to the time bands is based on the expected maturity date.
[3] Allocation to the time bands is based on the earliest contractual maturity.

Table 20.3

Restructuring provisions

in USD millions	2009	2008
As of January 1	88	162
Provisions made during the period	101	141
Provisions used during the period	(86)	(200)
Provisions reversed during the period	(3)	(2)
Foreign currency translation effects	4	(10)
Net changes due to acquisitions/divestments	17	–
Other changes	(1)	(2)
As of December 31	**119**	**88**

During the year ended December 31, 2009, the Group entered into several restructuring programs, recording a total charge to income of USD 86 million. Additionally, USD 15 million were incurred with respect to restructuring programs already initiated in prior years. The largest restructuring program in 2009 relates to the integration of the management services business of 21st Century into the Group's Farmers business division. A restructuring plan was announced in which office closures and a reduction in workforce will occur. The impact is predominantly headcount related, with costs approximating USD 28 million. As a result of the 21st Century transaction, the Group also assumed already existing restructuring provisions of USD 17 million for on-going restructuring activities.

During the year ended December 31, 2008, the Group entered into four main restructuring programs, recording a total charge to income of USD 141 million. The UK General Insurance Business recorded restructuring costs totalling approximately USD 66 million, of which, USD 53 million related to a restructuring program aligned to the operational transformation strategy of the Group. The remainder related to a decision to close all retail outlets of one of the UK subsidiaries in order to focus on internet based sales.

In 2008, the Group's North America Commercial business division also entered into an operational transformation program. The impact is predominantly headcount related, with costs approximating USD 24 million. A further USD 32 million restructuring charge was recorded in 2008, to cover costs associated with the sale of Zurich American Insurance Company's Commercial Small Business Solutions book of business to Truck Insurance Exchange, one of the Farmers Exchanges. The costs are mainly related to IT infrastructure but also include severance payments.

21. Income taxes

Income tax expense – current/deferred split

Table 21.1

in USD millions, for the years ended December 31	2009	2008
Current	968	737
Deferred	327	(1,189)
Total income tax expense/(benefit)	**1,295**	**(452)**

Income tax expense – policyholder/shareholder attribution

Table 21.2

in USD millions, for the years ended December 31	2009	2008
Total income tax expense/(benefit) attributable to policyholders	387	(1,184)
Total income tax expense/(benefit) attributable to shareholders	908	732
Total income tax expense/(benefit)	**1,295**	**(452)**

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 21.3

in USD millions, for the years ended December 31	Rate	2009	Rate	2008
Net income before income taxes		4,531		2,663
Less: income tax (expense)/benefit attributable to policyholders		(387)		1,184
Net income before income taxes attributable to shareholders		4,144		3,847
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	912	22.0%	846
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*69*		164
Tax exempt and lower taxed income		*(53)*		(10)
Non-deductible expenses		*79*		98
Tax losses previously unrecognized or no longer recognized		*40*		(262)
Prior year adjustments and other		*(139)*		(104)
Actual income tax expense attributable to shareholders	21.9%	908	19.0%	732
Plus: income tax expense/(benefit) attributable to policyholders		387		(1,184)
Actual income tax expense/(benefit)	**28.6%**	**1,295**	**(17.0%)**	**(452)**

The table above sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss Statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

Current tax receivables and payables

Table 21.4

in USD millions, as of December 31	2009	2008
Current tax receivables	638	621
Current tax payables	(983)	(1,025)
Net current tax payables	**(345)**	**(404)**

Deferred tax assets and liabilities

Table 21.5

in USD millions, as of December 31	2009	2008
Deferred tax assets	2,257	2,901
Deferred tax liabilities	(4,464)	(3,485)
Net deferred tax liabilities	**(2,207)**	**(583)**

Development of net deferred tax liabilities

Table 21.6

in USD millions	2009	2008
As of January 1	(583)	(2,375)
Net change recognized in the income statement	(327)	1,189
Net change recognized in equity	(1,189)	1,380
Net changes due to acquisitions/(divestments)	11	(1,029)
Foreign currency translation effects	(119)	253
As of December 31	**(2,207)**	**(583)**

The cumulative amount of deferred tax credited to shareholders' equity, net of foreign currency translation effects, amounted to USD 531 million and USD 1,720 million for the years ended December 31, 2009 and 2008, respectively.

USD 1,029 million increase in deferred tax liabilities resulted from the acquisitions in 2008 as disclosed in note 5, of which USD 485 million relates to non-controlling interests.

Deferred taxes – policyholder/ shareholder attribution

Table 21.7

in USD millions, as of December 31	2009	2008
Net deferred tax assets/(liabilities) attributable to policyholders	(74)	544
Net deferred tax assets/(liabilities) attributable to shareholders	(2,133)	(1,128)
Net deferred tax liabilities	**(2,207)**	**(583)**

Table 21.8

Deferred tax assets/(liabilities) analysis by source

in USD millions, as of December 31	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	31	(516)	65	(584)
Depreciable and amortizable assets	20	(31)	22	(43)
Life policyholders' benefits and deposits[1]	11	(7)	20	–
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	316	(365)	965	(332)
Accruals & deferred income	197	–	239	–
Reserves for losses and loss adjustment expenses	489	–	569	(46)
Reserves for unearned premiums	706	(158)	744	(253)
Pensions and other employee benefits	376	–	384	–
Other assets/liabilities	768	(54)	658	(30)
Tax loss carryforwards	475	–	691	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,391	(1,131)	4,357	(1,289)
Valuation allowance	(2)	–	(167)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,389	(1,131)	4,190	(1,289)
Deferred tax assets	**2,257**		**2,901**	
Deferred acquisition and origination costs	56	(2,762)	22	(2,330)
Depreciable and amortizable assets	101	(2,116)	191	(1,592)
Life policyholders' benefits and deposits[1]	529	(861)	473	(817)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	344	(580)	710	(355)
Accruals & deferred income	105	(123)	66	(125)
Reserves for losses and loss adjustment expenses	339	(478)	268	(575)
Reserves for unearned premiums	156	(64)	201	(53)
Deferred front-end fees	747	–	629	–
Pensions and other employee benefits	366	(29)	435	(21)
Other assets/liabilities	930	(1,345)	918	(1,706)
Tax loss carryforwards	244	–	183	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,916	(8,358)	4,095	(7,573)
Valuation allowance	(23)	–	(6)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,893	(8,358)	4,089	(7,573)
Deferred tax liabilities		**(4,464)**		**(3,485)**
Net deferred tax liabilities		**(2,207)**		**(583)**

[1] Includes reserves for unit-linked contracts.

The Group's deferred tax assets and liabilities are recorded in the tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate. The first part of the table above includes single taxpayers with a net deferred tax asset position and the second part includes single taxpayers with a net deferred tax liability position.

As of December 31, 2009 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 16 billion. 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.

Tax losses carryforwards and tax credits

Table 21.9

in USD millions, as of December 31	**2009**	2008
For which deferred tax assets have been recognized, expiring		
< 5 years	160	42
5 to 20 years	1,290	1,399
> 20 years or with no time limitation	1,095	1,715
Subtotal	2,545	3,156
For which deferred tax assets have not been recognized, expiring		
5 to 20 years	178	203
> 20 years or with no time limitation	219	–
Subtotal	397	203
Total	**2,942**	**3,359**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 24 percent and 35 percent for the years 2009 and 2008, 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 deferred tax asset with 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, 2009, are recoverable.

22. Debt

Debt

Table 22.1

in USD millions, as of		2009	2008
Debt related to capital markets and banking activities			
Zurich Capital Markets	Various debt instruments payable within 1 year	25	2,079
Zurich Financial Services EUB Holdings Limited	Various debt instruments payable within 1 year	813	447
	Various debt instruments payable in more than 1 year	1	1
Debt related to capital markets and banking activities		**839**	**2,527**
Senior debt			
Zurich Finance (USA), Inc.	3.50% CHF 300 bond, due November 2011[1, 6]	291	283
	4.50% EUR 1,000 bond, due September 2014[2, 6]	1,443	1,395
	4.875% EUR 800 bond, due April 2012[6]	1,143	–
	6.50% EUR 600 bond, due October 2015[3, 6]	857	–
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 bond, due September 2013[1, 6]	747	–
Kemper Corporation	Various debt instruments, due within 1 year	–	23
Zurich Insurance Company Ltd	3.875% CHF 1,000 bond, due July 2011	965	938
	3.75% CHF 500 bond, due September 2013[6]	478	463
	Various debt instruments payable within 1 year	200	100
Other	Various debt instruments payable within 1 year	5	1
	Various debt instruments payable in more than 1 year	149	156
Senior debt		6,277	3,358
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 capital notes, undated[6]	203	–
	7.5% EUR 425 bond, due July 2039[6]	603	–
Zurich Finance (UK) plc	6.625% GBP 450 bond, undated notes[4, 6]	717	648
Zurich Finance (USA), Inc.	5.75% EUR 500 bond, due October 2023[6]	707	687
	4.5% EUR 500 bond, due June 2025[5, 6]	730	691
ZFS Finance (USA) Trust I	Series I 6.15% USD 600 ECAPS, due December 2065	567	569
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 ECAPS, due December 2065	672	672
ZFS Finance (USA) Trust III	Series III Floating Rate USD 400 ECAPS, due December 2065	200	318
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 Trust Preferred Securities, due May 2062	249	498
ZFS Finance (USA) Trust V	Series V 6.5% USD 1,000 Trust Preferred Securities, due May 2067	496	994
Other	Various debt instruments payable in more than 1 year	22	21
Subordinated debt		5,167	5,096
Total senior and subordinated debt		**11,444**	**8,455**
Total debt		**12,283**	**10,981**

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% of the total) and fair value hedge (20% of the total).
3 The bond is part of a qualifying cash flow hedge.
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 This bond is part of a qualifying fair value hedge.
6 Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).

None of the debt instruments listed above were in default as of December 31, 2009 and 2008.

Debt related to capital markets and banking activities

Debt related to capital markets and banking activities decreased from USD 2,527 million as of December 31, 2008 to USD 839 million as of December 31, 2009. Zurich Capital Markets' debt reduced by USD 2,054 million, largely due to commercial paper repayments, partially offset by an increase of USD 366 million in the level of corporate and institutional deposits held by our banking operations. A significant portion of the commercial paper repayments was financed by the issue of longer term senior debt which better matches the duration of the assets.

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 15 billion. All issuances under this programme are either issued or guaranteed by Zurich Insurance Company Ltd. The Group has also issued debt instruments outside this programme when deemed appropriate.

i) Senior debt

Senior debt increased from USD 3.4 billion to USD 6.3 billion during the year, mainly as a result of issuances under the EMTN Programme. The senior debt issued on September 30, 2009, was used to meet operational debt requirement of capital markets and banking activities, partially through the repayment of existing operational debt.

On April 14, 2009, Zurich Finance (USA), Inc. issued EUR 800 million (USD 1,143 million) and EUR 600 million (USD 857 million) of senior debt under its EMTN Programme. These bonds carry a fixed annual coupon of 4.875% and 6.50% and mature in April 2012 and in October 2015, respectively.

On September 30, 2009 Zurich Finance (Luxembourg) S.A. issued USD 750 million of senior debt under its EMTN Programme. These bonds carry a fixed annual coupon of 3.25% and mature in September 2013.

ii) Subordinated debt

Subordinated debt increased slightly from USD 5.1 billion as of December 31, 2008 to USD 5.2 billion as of December 31, 2009, due to issuances of approximately USD 806 million under the EMTN Programme and foreign currency revaluation of GBP and EUR bonds, partially offset by the repurchase of USD 866 million of previously issued subordinated debt.

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

On July 1, 2009, Zurich Insurance Company Ltd issued EUR 143 million (USD 203 million) of subordinated capital notes under its EMTN Programme. These subordinated bonds carry a fixed annual coupon of 12.0% and are callable in 2014.

On July 24, 2009, Zurich Insurance Company Ltd issued EUR 425 million (USD 603 million) of subordinated notes under the EMTN Programme. These subordinated bonds carry a fixed coupon of 7.5%, are first callable in 2019 and mature in 2039.

On March 31, 2009, Zurich Holding Company of America (ZHCA), a subsidiary of the Group, repurchased USD 9 million Enhanced Capital Advantaged Preferred Securities (ECAPS) and USD 85 million Trust Preferred Securities. On May 20, 2009, ZHCA repurchased USD 50 million of ECAPS. These repurchases resulted in a total pre-tax gain of USD 74 million.

On August 11, 2009, Zurich Insurance Company Ltd, Bermuda Branch, purchased the following principal amounts of securities issued by ZFS Financial (USA) Trusts from investors, which resulted in a total pre-tax gain of USD 136 million:

- USD 64 million of Series III Floating Rate ECAPS issued by ZFS Finance (USA) Trust III;
- USD 206 million of Series IV Fixed/Floating Rate Trust Preferred Securities issued by ZFS Finance (USA) Trust IV; and,
- USD 458 million of Series V Fixed/Floating Rate Trust Preferred Securities issued by ZFS Finance (USA) Trust V.

Description and features of significant subordinated debt

Table 22.2

in USD millions

Description	Coupon conditions	Call/ redemption date	Redemption conditions
12.00% EUR 143 bond, undated 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 bond, 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.
6.625% GBP 450 bond, undated notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest.[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 bond, 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 bond, 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 I 6.15% Fixed/Adjustable Rate USD 600 ECAPS, due December 2065	6.15% payable semi-annually until December 15, 2010 and then reset quarterly to the adjustable rate plus 1.75%.[2]	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accrued interest.
Series II 6.45% Fixed/Adjustable Rate USD 700 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 III Floating Rate USD 400 ECAPS, due December 2065	3-month LIBOR plus 1.15% reset quarterly until December 15, 2010 and then 3-month LIBOR plus 2.15%.	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accrued interest.
Series IV 5.875% USD 500 Fixed/Floating Trust Preferred Securities, due May 2062	5.875% payable semi-annually until May 9, 2012 and then reset quarterly to 3-month LIBOR plus 1.815%.	Quarterly on or after May 9, 2012	Redeemable in whole or in part at par plus any accrued interest.
Series V 6.5% USD 1,000 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, plus 2.85% per annum.
[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 13.25% Series I and 13% for Series II.

Maturity schedule of outstanding debt

Table 22.3

in USD millions, as of	2009		2008	
	Carrying value	**Undiscounted cash flow**	Carrying value	Undiscounted cash flow
< 1 year	1,044	1,644	2,650	3,139
1 to 2 years	1,272	1,872	11	446
2 to 3 years	1,143	1,721	1,237	1,659
3 to 4 years	1,235	1,731	13	392
4 to 5 years	1,448	1,890	463	835
5 to 10 years	975	2,456	1,513	2,857
> 10 years	5,167	7,265	5,096	7,123
Total	**12,283**	**18,579**	**10,981**	**16,451**

Debt maturities shown in table 22.3 reflect original contractual dates without taking early redemption options into account. For call/redemption dates, refer to table 22.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 22.3. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2009 and December 31, 2008, respectively. All debt is assumed to mature within 20 years of the balance sheet date without refinancing and where the Group has the option to repay the debt, the option is assumed to expire. Floating interest rates are assumed to remain constant as of December 31, 2009 and December 31, 2008, respectively. The aggregated cash flows are translated into USD at end-of-period rates.

Interest expense on debt

Table 22.4

in USD millions, for the years ended December 31	2009	2008
Debt related to capital markets and banking activities	66	127
Senior debt	215	141
Subordinated debt	305	331
Total	**586**	**599**

Interest expense on debt

Interest expense on debt decreased from USD 599 million in 2008 to USD 586 million in 2009, primarily as a result of lower interest rates and foreign exchange fluctuations.

Credit facilities

The Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in 2012. Zurich Financial Services Ltd through the absorption of Zurich Group Holding, together with Zurich Insurance Company Ltd and Farmers Group, Inc. are guarantors of the facility and can draw up to USD 1.25 billion, USD 1.5 billion and USD 250 million, respectively. No borrowings were outstanding under this facility as of December 31, 2009 and December 31, 2008.

Dunbar Bank and Zurich Bank have access to various committed credit facilities totalling GBP 240 million and GBP 190 million, respectively. As of December 31, 2009 and December 31, 2008, GBP 50 million were drawn under these credit facilities.

In addition, Zurich Insurance Company Ltd also has access to a USD 300 million credit facility expiring in 2010 for the sole purpose of financing surplus notes issued by the Leschi Life Assurance Company (Leschi), a special purpose reinsurer owned by Farmers New World Life (FNWL) and to which FNWL cedes business subject to U.S. Regulation Reserve Requirements XXX (Triple X). As of December 31, 2009 and December 31, 2008, USD 200 million and USD 100 million, respectively, were drawn under this credit facility.

Financial debt

Financial debt consists of all debt items that are included in financial leverage calculations of rating agencies.

As of December 31, 2009 and December 31, 2008, financial debt consisted of the following components.

Financial debt

Table 22.5

in USD millions, as of	2009 Reported	2009 Adjustments	2009 Financial Debt	2008 Financial Debt
Debt related to capital markets and banking activities	839	814	25	1,379
Senior debt	6,277	1,047	5,230	3,158
Subordinated debt	5,167	–	5,167	5,096
Total	**12,283**	**1,862**	**10,422**	**9,633**

The USD 814 million capital markets and banking activities adjustment relates to notes and loans payable held by Zurich Financial Services EUB Holdings Limited.

The USD 1,047 million adjustment to senior debt contains the newly issued USD 750 million under the EMTN Programme by Zurich Finance (Luxembourg) S.A. loaned directly to our capital markets and banking activities, an adjustment of USD 100 million for non-recourse debt and the USD 200 million drawn under the Leschi credit facility.

23. Shareholders' equity

Share capital

Table 23.1

	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2007	14,554,682	145,546,820	0.10
Capital reduction by canceling shares bought back under the share buy-back program announced in 2007	(343,250)	(3,432,500)	0.10
New shares issued from contingent capital in 2008	830	8,300	0.10
As of December 31, 2008	14,212,262	142,122,620	0.10
New shares issued from authorized capital in 2009	480,000	4,800,000	0.10
New shares issued from contingent capital in 2009	55,045	550,448	0.10
As of December 31, 2009	14,747,307	147,473,068	0.10
Authorized, contingent and issued share capital			
As of December 31, 2008	15,679,873	156,798,727	0.10
As of December 31, 2009	16,531,690	165,316,899	0.10

a) Issued share capital

As of December 31, 2008, Zurich Financial Services Ltd had bought back 3,750,500 of its registered shares over a second trading line within its buy-back program authorized by the Board of Directors on February 13, 2008. In March 2009, the Board of Directors decided not to propose the destruction of these shares to the Annual General Meeting of shareholders but to keep the shares as treasury shares for use in connection with the funding of potential acquisitions in the future or for employee share-based compensation. This rededication of the shares has been approved by the Swiss Takeover Board.

At the Annual General Meeting on April 2, 2009 the shareholders approved an increase in both authorized and contingent share capital to a new maximum of CHF 1,000,000 each, allowing for enhanced financial flexibility of the company for future capital management. On April 17, 2009, Zurich Financial Services Ltd placed 4,800,000 new shares issued under its authorized share capital and 1,914,096 existing treasury shares, bought back under the share buy-back program authorized in 2008, with institutional investors via an accelerated bookbuild. This capital increase reduced the authorized capital to CHF 520,000. The proceeds from the accelerated bookbuild were used in connection with the funding of the 21st Century acquisition completed on July 1, 2009.

During the year 2009, a total of 550,448 shares were issued to employees out of the contingent capital.

At the Annual General Meeting on April 3, 2008, the shareholders approved a share capital reduction of CHF 343,250 from CHF 14,554,682 to CHF 14,211,432 by cancelling 3,432,500 registered shares that were bought back under the share buy-back program announced on February 15, 2007. The effective date of the capital reduction was June 27, 2008. During the year 2008, a total of 8,300 shares were issued to employees out of the contingent capital.

b) Authorized share capital

Until April 3, 2011, the Board of Zurich Financial Services Ltd is authorized to increase the share capital by an amount not exceeding CHF 520,000 by issuing up to 5,200,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board determines the date of issue of such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the beginning of dividend entitlement. The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with a subsequent offer of those shares to current shareholders. The Board may allow the expiry of pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

The Board is further authorized to restrict or withdraw the pre-emptive rights of shareholders and to allocate them to third parties if the shares are to be used for the take-over of an enterprise, or parts of an enterprise or of participations or if issuing shares for the financing including re-financing of such transactions, or for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges.

c) Contingent share capital

Capital market instruments and option rights to shareholders

The share capital of Zurich Financial Services Ltd may be increased by an amount not exceeding CHF 1,000,000 by the issuance of up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each (i) by exercising of conversion and/or option rights which are granted in connection with the issuance of bonds or similar debt instruments by Zurich Financial Services Ltd or one of its Group companies in national or international capital markets; and/or (ii) by exercising option rights which are granted to current shareholders. When issuing bonds or similar debt instruments connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

The Board of Directors is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at then current convertible bond or warrant issue conditions. The conversion rights may be exercisable during a maximum of ten years and option rights for a maximum of seven years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions, whereby for shares of Zurich Financial Services Ltd the quoted share price is to be used as a basis.

Employee participation

On February 14, 2007, the Board of Directors of Zurich Financial Services Ltd decided to allow the issuance of up to 4,000,000 shares out of the contingent share capital to employees of the Group. A respective proposal for the increase of the contingent share capital was made by the Board of Directors to the shareholders and was approved at the Annual General Meeting on April 3, 2007. On January 1, 2008, the contingent share capital, to be issued to employees of Zurich Financial Services Ltd and Group companies, amounted to CHF 320,258 or 3,202,579 fully paid registered shares with a nominal value of CHF 0.10 each. During 2009 and 2008, 550,448 and 8,300 shares, respectively, were issued to employees out of the contingent share capital under the program described above. As a result, on December 31, 2009 and 2008, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Financial Services Ltd and its subsidiaries, amounted to CHF 264,383 and CHF 319,428 or 2,643,831 and 3,194,279 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 or respective option rights 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 or option rights may be issued to the employees at a price lower than that quoted on the stock exchange.

d) Preferred securities

Table 23.2

Preferred securities

	Preferred securities in USD	Number of securities	Par value in USD
As of December 31, 2007	700,000,000	700,000	1,000
Redeemed securities	(125,000,000)	(125,000)	1,000
As of December 31, 2008[1]	575,000,000	575,000	1,000
As of December 31, 2009[1]	575,000,000	575,000	1,000

[1] The amount is gross of issuance costs of USD 14 million as of December 31, 2009 and 2008 and of USD 29 million as of December 31, 2007.

In February 2001, the Group placed six series of Trust Capital Securities (Zurich RegCaPS) for a total amount of USD 1,125 million (USD 1,096 million net of issuance costs) with a limited number of qualified institutional and corporate U.S. investors. The securities, which were issued under Rule 144A in the U.S., are perpetual, non-cumulative and have a par value of USD 1,000 each. They have no voting rights, except in certain specified circumstances and are linked to Farmers Group, Inc. Class C shares. On March 30, 2006, April 11, 2006 and April 18, 2008, the Group redeemed the Series I, III and IV of the Zurich RegCaPS, respectively. The liquidation amounts totalled USD 550 million in aggregate. Of the remaining series totalling USD 575 million, one has a fixed rate coupon of 6.58 percent and two have floating rate coupons at LIBOR +71 basis points. These coupon rates step up after the first call dates. The Group has the option to call all outstanding securities in 2011.

e) Additional paid-in capital

This reserve is not ordinarily available for distribution.

f) Treasury shares

Table 23.3

Treasury shares

number of shares, as of December 31	2009	2008
Treasury shares	3,269,338	5,219,803

Treasury shares comprise shares repurchased under the share buy-back program announced in 2008 and shares acquired in the market held to cover employee share and option plans. The number of treasury shares amounted to 3,269,338 and 5,219,803 as of December 31, 2009 and 2008, respectively.

On February 14, 2007 the Board of Zurich Financial Services Ltd authorized a share buy-back program. 3,432,500 fully paid shares, with a nominal value CHF 0.10, were bought back at an average price of CHF 364 per share, at a total cost of CHF 1.2 billion. At the Annual General Meeting on April 3, 2008, the shareholders approved a share capital reduction by CHF 343,250 from CHF 14,554,682 to CHF 14,211,432 by cancelling these 3,432,500 registered shares. The effective date of the capital reduction was June 27, 2008.

On February 13, 2008 the Board of Zurich Financial Services Ltd authorized a share buy-back program for the repurchase of up to CHF 2.2 billion worth of shares over the course of 2008. As of December 31, 2008, 3,750,500 fully paid shares, with a nominal value of CHF 0.10, had been bought back at an average price of CHF 293 per share, at a total cost of CHF 1.1 billion. In March 2009, the Board of Directors decided not to propose the destruction of these shares to the Annual General Meeting of shareholders but to keep the shares as treasury shares for use in connection with the funding of potential acquisitions or for employee share-based compensation. This rededication has been approved by the Swiss Takeover Board.

On April 17, 2009, Zurich Financial Services Ltd placed 1,914,096 treasury shares, bought back in 2008 under the share buy-back program, with institutional investors with the proceeds applied to the 21st Century acquisition completed on July 1, 2009.

In its meeting of February 3, 2010, the Board of Directors decided to propose to the Annual General Meeting 2010 the destruction of the remaining 1,836,404 shares from the share buyback program authorized by the Board of Directors on February 13, 2008. Since their rededication in March 2009 these shares were held as treasury shares for use in connection with the funding of potential acquistions in the future or for employee share-based compensation plans.

g) Earnings per share

Table 23.4

Earnings per share

for the years ended December 31	Net income attributable to common shareholders (in USD millions)	Weighted average number of shares	Per share (USD)	Per share (CHF)[1]
2009				
Basic earnings per share	**3,196**	**141,943,376**	**22.51**	**24.39**
Effect of potentially dilutive shares related to share-based compensation plans		1,023,350	(0.16)	(0.17)
Diluted earnings per share	**3,196**	**142,966,726**	**22.35**	**24.21**
2008				
Basic earnings per share	**3,007**	**137,943,218**	**21.80**	**23.53**
Effect of potentially dilutive shares related to share-based compensation plans		1,049,425	(0.16)	(0.18)
Diluted earnings per share	**3,007**	**138,992,643**	**21.63**	**23.35**

[1] 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, 2009 and 2008, respectively.

Basic earnings per share is computed by dividing net income attributable to 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.

24. Employee benefits

The Group had 56,668 and 57,609 employees (full-time equivalents) as of December 31, 2009 and 2008, respectively. Personnel and other related costs incurred for the year ended December 31, 2009 and 2008, were USD 5,174 million and USD 5,404 million, including wages and salaries of USD 4,197 million and USD 4,468 million, respectively. The reduction of wages and salaries of USD 271 million represents a reduction of USD 130 million on a local currency basis.

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 final pensionable earnings. Others provide cash balance plans where the participants receive the benefit of the accumulated employer and employee contribtutions together with additional cash credits in line with the rules of the plan. Eligibility for participation in the various plans is either based on completion of a specified period of continuous service or from the date of commencement of employment.

Most of the Group's defined benefit pension plans are funded through contributions by the Group, and in some cases the employee, to trusts or foundations independent of the Group's finances. In these cases, the annual funding requirements are determined in accordance with local funding and actuarial cost methods. Where plans are not funded, a liability for the accrued pension obligations is recognized in the Group's balance sheet.

For the defined benefit pension plans, total contributions to funded pension plans and benefit payments by the Group are currently estimated at USD 456 million for 2010 compared with USD 451 million estimated in the previous year for 2009. The actual amount 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 in the various plans is generally based on completion of a specified period of eligible service and reaching a specified age. The programs typically pay a stated percentage of medical expenses subject to deductibles and other factors. The cost of post-employment benefits is accrued during the employees' service periods. The method of accounting and the frequency of valuations are similar to those for defined benefit pension plans.

The tables below show the funded status of the Group's plans; this being the pension plans' assets at fair value less the pension plans' liabilities based on the present value of the obligations. Plans that are wholly unfunded are shown separately from plans that are wholly or partly funded.

Table 24.1

Status of funded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans				Other defined post-employment benefits			
	2009	2008	2007	2006	**2009**	2008	2007	2006
Present value of funded obligations	(13,966)	(12,680)	(13,653)	(12,190)	(70)	(93)	(66)	(70)
Fair value of plan assets	12,622	10,879	13,285	11,071	–	–	5	10
Funded status	(1,344)	(1,801)	(368)	(1,119)	(70)	(92)	(61)	(60)
Unrecognized past service cost	–	(1)	–	2	–	–	–	–
Cumulative impact of asset ceiling	(15)	(7)	(62)	–	–	–	–	–
Liability – funded obligations	**(1,359)**	**(1,808)**	**(430)**	**(1,117)**	**(70)**	**(92)**	**(61)**	**(60)**

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, but included in other comprehensive income.

Table 24.2

Status of unfunded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans				Other defined post-employment benefits			
	2009	2008	2007	2006	**2009**	2008	2007	2006
Present value of unfunded obligations	(230)	(210)	(207)	(985)	(205)	(183)	(208)	(196)
Unrecognized past service cost	–	–	–	–	(28)	(1)	(2)	(1)
Liability – unfunded obligations	**(229)**	**(209)**	**(207)**	**(985)**	**(234)**	**(184)**	**(210)**	**(197)**

Table 24.3

Status of funded and unfunded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans				Other defined post-employment benefits			
	2009	2008	2007	2006	**2009**	2008	2007	2006
Liability	**(1,588)**	**(2,017)**	**(637)**	**(2,101)**	**(303)**	**(277)**	**(271)**	**(256)**

Table 24.4

Expense recognized in income

in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2009	2008	**2009**	2008
Current service cost	(298)	(300)	(7)	(5)
Interest cost	(685)	(715)	(16)	(15)
Expected return on plan assets	619	727	–	–
Past service cost	(7)	(14)	9	–
Gains on curtailment or settlement	2	2	–	–
Net pension expense	**(369)**	**(300)**	**(14)**	**(19)**

Pension expense is recognized in other employee benefits, which are included in administrative and other operating expense.

Fair value of assets held in funded defined benefit plans

Table 24.5

in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2009	2008	2009	2008
Mortgage loans	396	409	–	–
Cash and cash equivalents	181	130	–	–
Equity securities	3,598	2,847	–	–
Debt securities	7,740	6,816	–	–
Real estate	701	671	–	–
Other assets[1]	6	6	–	–
Total	**12,622**	**10,879**	**–**	**–**

[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 24.6

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2009	2008	2009	2008
Benefit obligation as of January 1	(12,890)	(13,860)	(275)	(274)
Current service cost	(298)	(300)	(7)	(5)
Past service cost including plan amendments	(9)	(15)	37	–
Interest cost	(685)	(715)	(16)	(15)
Actuarial gain/(loss) included in other comprehensive income	12	(320)	(7)	3
Employee contributions	(42)	(42)	(4)	(4)
Effect of curtailments or settlements	15	2	–	–
Benefits paid	526	512	17	16
Effects of business combinations and other transfers	(53)	(47)	(12)	(11)
Foreign currency translation effects	(771)	1,894	(7)	13
Benefit obligation as of December 31	**(14,196)**	**(12,890)**	**(275)**	**(275)**

Movement in fair value of plan assets – funded plans

Table 24.7

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2009	2008	2009	2008
Fair value of plan assets as of January 1	10,879	13,286	–	5
Expected return on plan assets	619	727	–	–
Actuarial gain/(loss) included in other comprehensive income	318	(1,485)	–	–
Employer contributions	528	533	13	7
Employee contributions	42	42	4	4
Benefits paid	(526)	(512)	(17)	(16)
Effect of curtailments or settlements	(13)	–	–	–
Effects of business combinations and other transfers	61	52	–	–
Foreign currency translation effects	713	(1,763)	–	–
Fair value of plan assets as of December 31	**12,622**	**10,879**	**–**	**–**

The actual returns on defined benefit pension plan assets for the years ended December 31, 2009 and 2008 were gains of USD 937 million and losses of USD 758 million, respectively.

The summary of the balance sheet changes in relation to defined benefit plans and other defined post-employment benefits is given below.

Table 24.8

Movement in liability for funded and unfunded plans

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2009	2008	**2009**	2008
Liability as of January 1	(2,017)	(637)	(277)	(271)
Current year expense	(369)	(300)	(14)	(19)
Contributions paid	528	533	13	7
Change in liability due to asset ceiling	(7)	51	–	–
Actuarial gain/(loss) passed through other comprehensive income	329	(1,805)	(7)	3
Effects of business combinations and other transfers	(1)	(6)	2	(9)
Foreign currency translation effects	(51)	148	(21)	11
Liability as of December 31	**(1,588)**	**(2,017)**	**(303)**	**(277)**

The movements in actuarial gains and losses due to differences between actual and expected experience on the Group's plan assets and defined benefit obligations, together with the impact of changes in actuarial assumptions to reflect economic conditions at the year end are summarized below:

Table 24.9

Actuarial gain/(loss)

in USD millions	**2009**	2008	2007	2006
Actuarial gain/(loss) as of January 1	(2,907)	(1,308)	(1,870)	(2,420)
Experience adjustments on plan liabilities	(37)	(147)	(118)	(375)
Experience adjustments on plan assets	318	(1,485)	188	447
Changes due to discount rate assumptions	(103)	223	975	–
Changes due to other actuarial assumptions	144	(392)	(345)	528
Asset ceiling recognition	(7)	51	(64)	–
Foreign currency translation effects	(80)	152	(75)	(50)
Total actuarial gain/(loss) as of December 31	**(2,672)**	**(2,907)**	**(1,308)**	**(1,870)**
Total actuarial gain/(loss) net of policyholder participation and taxes as of December 31	**(1,762)**	**(1,934)**	**(818)**	**(1,286)**

The principal financial assumptions used to calculate the Group's major defined benefit pension and defined post-employment benefit obligations and the Group's pension expenses are as follows:

Assumptions used in determining the actuarial liabilities for major defined benefit pension plans

Table 24.10

as of December 31	2009				2008			
	Switzer-land	**United Kingdom**	**United States**	**Germany**	Switzer-land	United Kingdom	United States	Germany
Discount rate	3.1%	5.9%	5.8%	5.4%	2.9%	5.9%	6.1%	5.7%
Inflation rate	1.5%	3.1%	2.4%	1.7%	1.6%	3.0%	2.1%	1.8%
Expected long-term rate of return on assets	4.1%	6.6%	7.0%	5.1%	4.1%	5.9%	6.8%	5.0%
Expected future salary increases	2.1%	4.3%	3.9%	2.7%	2.2%	4.3%	4.4%	3.1%
Expected future pension increases	1.0%	3.1%	0.3%	1.7%	1.1%	3.2%	0.3%	1.8%
Current average life expectancy for a 65 year old male	19.8	22.3	19.4	18.1	19.8	22.2	19.3	18.0

The expected long-term rate of return on assets is derived separately for each of the Group's funded benefit plans. Each major asset class is assigned an expected long-term rate of return, net of investment expenses, appropriate for the environment in which that plan is invested. The overall expected long-term rate of return on assets for a plan is calculated as the weighted average of the expected return for each asset class, weighted by the plan's target allocation to each asset class.

The mortality assumptions in each country have been based on mortality tables in accordance with the general use in that market. Where appropriate these tables make allowance for projected future improvements in life expectancy.

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

Table 24.11

as of December 31	2009	2008
	U.S.	U.S.
Discount rate	5.5%	6.0%
Expected increase in long-term health cost – initial rate	8.4%	8.4%
Expected increase in long-term health cost – ultimate rate	4.8%	4.9%

The actuarial assumptions of 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 effects on amounts recognized in 2009 as set out in table 24.12.

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

Table 24.12

	1% increase	1% decrease
Effect on total service cost and interest cost	–[1]	–[1]
Effect on benefit obligation	3	(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 47 million and USD 52 million in 2009 and 2008, respectively.

25. 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 Group's 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 unit. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expenses recognized for these cash incentive plans amounted to USD 354 million and USD 285 million for the years ended December 31, 2009 and 2008, respectively.

b) Share-based compensation plans for employees and executives

The Group encourages employees to own shares of Zurich Financial Services Ltd and has set up a framework based on the implementation of either share options and/or performance share programs. Actual plans are tailored to meet local market requirements.

Expenses recognized in income

Table 25.1

in USD millions, as of December 31	2009	2008
Total option-based expenses	42	35
Total share-based expenses	119	139
Total expenses	**161**	**174**

The explanations below provide a more detailed overview of the main plans of the Group.

Employee share plans

Share Incentive Plan for employees in the UK

The Group established an Inland Revenue approved Share Incentive Plan and launched the partnership shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Financial Services Ltd shares at the prevailing market price out of their gross earnings. There were 374 and 420 participants in the plan as of December 31, 2009 and 2008, 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 participating employee's business unit's Business Operating Profit (BOP) after tax for the year, subject to a maximum individual award of 5 percent of participant's base salary (before any flexible benefit adjustments) or GBP 3,000. The total number of participating employees in the reward share element of the plans as of December 31, 2009 and 2008 was 5,569 and 6,269 respectively.

Share Incentive Plans for employees in Switzerland

Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is CHF 3,500 per employee. During 2009, 6,053 employees participated in the Employee Incentive Plan compared with 6,282 in 2008. For the year ended December 31, 2009, 1,579 employees received shares under the 2008 employee performance share plan. For the year ended December 31, 2008, 1,909 employees received shares under the 2007 employee performance share plan.

Share-based compensation plans for executives
The Group operates long-term incentive plans for selected executives. These plans comprise the allocation of a target number of share grants and/or share option grants with the vesting of these share and option grants being subject to the achievement of specific financial performance goals, such as net income after tax and BOP. The Group can also make restricted share grants to selected employees, which provide share awards if the individual remains employed with the Group on selected dates in the future.

Senior Executive long-term incentive plans
Each year, Senior Executives are granted performance shares and performance options, which vest on an annual basis over the subsequent three year period. The actual level of vesting, which can be between 0 percent and 175 percent, with an additional discretion to increase vesting to a maximum of 200 percent, of the original number of shares and/or options granted, depends on the performance of the Group during the previous calendar year. For 2009 and future grants we are looking back to a three year performance period. The current performance metrics are the Group's return on equity (ROE) 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 period of three years. The options have a seven year term from the date of grant. Grants under the plan are made annually each April. The actual number of performance shares and performance options granted is determined such that the economic value is a defined percentage of annual salary in the year of allocation. There were a total of 175 and 170 participants in this plan as of December 31, 2009 and 2008, respectively.

Executive long-term performance share plans
Each year, selected executives are granted performance shares which vest on an annual basis over the subsequent three year period. The actual level of vesting, which can be between 0 percent and 175 percent, with an additional discretion to increase vesting to a maximum of 200 percent, of the original number of shares granted, depends on the performance of the Group during the previous calendar year. For 2009 and future grants we are looking back to a three year performance period. The current performance metrics are the Group's ROE and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. Grants under the plan are made annually each April. The actual number of performance shares granted is determined such that the economic value is a defined percentage of the annual salary in the year of allocation. Actual awards under these plans are made fully in shares of Zurich Financial Services Ltd. One half of the shares that actually vest are sales-restricted for a further period of three years. There were a total of 900 and 833 participants in this plan as of December 31, 2009 and 2008, respectively.

c) Further information on performance share and option plans

Table 25.2

Movements in options granted under the various equity participation plans

	Number of shares under option		Weighted average exercise price (in CHF)	
	2009	2008	**2009**	2008
As of January 1	2,760,367	2,387,815	284	273
Options granted	1,175,774	855,214	276	314
Options forfeited	(31,161)	(61,701)	303	321
Options exercised	(147,369)	(288,287)	147	182
Options expired during period	(703,854)	(132,674)	327	461
As of December 31	**3,053,757**	**2,760,367**	**278**	**284**
Exercisable options as of December 31	2,132,033	1,912,112	278	284

Certain plan participants elected in 2002 to take their option award in the form of Share Appreciation Rights (SAR). The plan expired on April 30, 2009.

The average share price for Zurich Financial Services Ltd shares in 2009 and 2008 was CHF 209.33 and CHF 280.49 respectively.

Table 25.3

Share options exercised during the period

	Amount	Average share price in CHF
Exercise date		
January to April, 2009	2,211	190
May to August, 2009	68,336	218
September to December, 2009	76,822	241
Total	**147,369**	**230**

Table 25.4

Range of exercise prices of options outstanding

in CHF, as of December 31, 2009	Number of options	Weighted average contractual life in years	Weighted average remaining expected life in years
Exercise price			
100 to 200	527,527	7.0	6.1
201 to 300	785,161	7.0	2.0
301 to 400	1,741,069	7.1	4.3
Total	**3,053,757**	**7.0**	**4.0**

Options and shares granted during the period

Table 25.5

for the years ended December 31	Number		Weighted average fair value at grant date (in CHF)	
	2009	2008	**2009**	2008
Shares granted during the period	543,698	271,374	198	337
Options granted during the period[1]	1,175,774	855,214	62	67

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

The shares and options granted during the year are the target allocations made under the performance option and performance share plans together with any restricted share awards granted during the year. Whether these grants become vested or not will depend on whether the performance achievements are met. In case the performance achievements deviate from the initial assumptions, the expense is being adjusted.

The fair value of options granted is estimated using the Black-Scholes option pricing model, with the assumptions shown in table 25.6.

Black-Scholes assumptions for fair value of options

Table 25.6

	2009	2008
Share price, in CHF[1]	198	337
Exercise price, in CHF	198	337
Assumed volatility	42.95%	29.50%
Risk-free interest rate	2.21%	3.21%
Expected dividend rate	4.07%	4.50%
Contracted option life	7 years	7 years

[1] Share price as at date of grant.

The risk-free interest rate was determined by using the seven year CHF swap rate applicable in 2009 and 2008. The implied volatility was determined based on the average of a number of several independent quotes.

26. 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 delinquent principal and interest payments, make capital contributions or provide equity financing.

Quantifiable commitments and contingencies

Table 26.1

in USD millions, as of December 31	**2009**	2008
Commitments under investment agreements	4,165	4,205
Less funded commitments	(3,386)	(3,423)
Remaining commitments under investment agreements	779	782
Guarantees and letters of credit[1]	9,911	915
Future rent commitments	1,154	1,261
Undrawn loan commitments (capital markets and banking activities)	405	646
Other commitments and contingent liabilities	84	47

[1] Guarantee features embedded in life insurance products are not included. For such guarantee features refer to note 8 on insurance reserves.

Commitments under investment agreements

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty over the term of the investment (generally three to five years) and must be funded by the Group on a timely basis.

Guarantees and letters of credit

USD 9,044 million of the USD 9,911 million for financial guarantees and letter of credit in 2009 relate to guarantees in the aggregate amount of GBP 5,595,189,729 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.

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.

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 200 million and USD 198 million for the years ended December 31, 2009 and 2008, respectively.

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

Table 26.2

in USD millions, as of December 31	**2009**	**2008**
< 1 year	227	229
1 to 2 years	201	208
2 to 3 years	156	177
3 to 4 years	127	134
4 to 5 years	133	112
> 5 years	309	401
Total	**1,154**	**1,261**

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 event at

USD 289 million. As of December 31, 2009, and 2008 respectively, the Group has recorded in this respect provisions of USD 44 million and USD 54 million.

Pledged assets

The majority of assets pledged to secure the Group's liabilities relates 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 9,288 million and USD 6,564 million as of December 31, 2009 and 2008, 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.

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 Zurich Insurance Company Ltd's financial strength downgrading from currently AA- by Standard & Poor's. Should the rating fall to A+ by Standard & Poor's, the additional collateral based on information available on December 31, 2009 is estimated to amount to approximately USD 182 million.

In common with other groups writing life assurance business in the UK, the Group remains exposed to a number of Conduct of Business issues. While provisions are maintained which reflect management's best evolving estimate of the probable costs and expenses of resolving these matters, significant uncertainty regarding the ultimate cost remains. The main area of uncertainty concerns sales advice related complaints. The key assumptions used to derive the complaint provision are the volume of complaints, both those already recorded and an assumption as to the level of future complaints, the percentage of complaints which will be successful (the uphold rate), the average redress payable per complaint and the expenses of reviewing each case or complaint. The assumptions used to set the provision have been based on actual recent experience.

In 2003, the Group completed the divestment of various asset management operations. As part of these agreements, the Group has guaranteed certain minimum levels of "assets under management" to the acquirers. The guarantees provide that if the "assets under management" fall below those defined levels under certain conditions, the Group may be required to compensate for these shortfalls.

Litigation and regulatory investigations

The Group and its subsidiaries are continuously involved in legal proceedings, claims and litigation arising, for the most part, in the ordinary course of their business operations.

In 2006, the Group settled with various U.S. state attorneys general and state insurance regulators in connection with investigations in the U.S. concerning certain business practices involving insurance brokers and insurance companies. In July 2006, the Group also entered into a settlement agreement to resolve consolidated class-action litigation concerning those matters. Final judgment has been entered approving the settlement, and the appellate court has upheld the settlement approval. A number of individual claims not covered by the class action settlement remain pending against the Group.

Zurich Financial Services (now Zurich Financial Services Ltd) was a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium (now Scor Holding (Switzerland) AG). On July 25, 2008, Zurich Financial Services Ltd and the class-action plaintiffs entered into an amended stipulation of settlement that called for a payment of USD 28 million to settle the case in two parts on behalf of all persons and entities who purchased Converium securities between January 7, 2002 and September 2, 2004: one settlement in the U.S. court, covering all U.S. persons and entities, and all other persons who purchased Converium securities on U.S. markets, and another settlement in the Amsterdam Court of Appeal, in the Netherlands, covering all non-U.S. persons and entities who purchased Converium securities on non-U.S. markets. The U.S. and Dutch settlements are both subject to court approval and are independent of each other. The U.S. court approved the U.S. settlement on December 12, 2008, but a notice of appeal was filed. The appeal, however, was dismissed by stipulation of the parties on June 25, 2009 and the U.S. settlement is now considered final. The proposed Dutch settlement has not yet been presented to the Dutch court.

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 would have a material adverse effect on the Group's consolidated financial condition. However, it is possible that the outcome of any proceedings could have a material impact on results of operations in the particular reporting period in which it is resolved.

27. Fair value of financial assets and financial liabilities

The following tables compare the fair value of financial assets and financial liabilities with their carrying value.

Fair value (FV) and carrying value of Group investments and other Non-unit linked financial instruments

Table 27.1a

in USD millions, as of December 31	Fair value		Carrying value	
	2009	2008	**2009**	2008
Cash and cash equivalents	11,631	12,428	11,631	12,428
Available-for-sale securities				
Debt securities	124,358	105,752	124,358	105,752
Equity securities	7,432	9,307	7,432	9,307
Total available-for-sale securities	131,790	115,059	131,790	115,059
Securities at FV through profit or loss				
Trading				
Debt securities	82	186	82	186
Equity securities	879	1,419	879	1,419
Designated at FV				
Debt securities	6,761	7,105	6,761	7,105
Equity securities	4,138	3,577	4,138	3,577
Total securities at FV through profit or loss	11,860	12,287	11,860	12,287
Derivative assets	1,240	1,629	1,240	1,629
Held-to-maturity debt securities	5,408	5,482	5,143	5,244
Loans and receivables				
Mortgage loans	12,791	13,090	12,736	12,820
Other loans	15,617	14,477	15,077	13,988
Deposits made under assumed reinsurance contracts	3,854	2,391	3,861	2,397
Mortgage loans given as collateral	1,130	1,313	1,102	1,233
Receivables	12,477	12,506	12,543	12,608
Other financial assets	8	14	8	14
Total loans and receivables	45,878	43,790	45,328	43,060
Total	**207,807**	**190,674**	**206,992**	**189,706**
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	(3,976)	(3,608)	(3,976)	(3,608)
Derivative liabilities	(660)	(1,388)	(660)	(1,388)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(254)	(122)	(254)	(122)
Liabilities related to investment contracts with DPF	(5,306)	(5,314)	(5,728)	(5,461)
Debt	(12,294)	(11,011)	(12,283)	(10,981)
Deposits received under ceded reinsurance contracts	(1,446)	(1,537)	(1,558)	(1,619)
Collateralized loans	(1,131)	(1,313)	(1,102)	(1,233)
Other financial liabilities	(4,009)	(2,844)	(4,014)	(2,850)
Total	**(29,076)**	**(27,137)**	**(29,575)**	**(27,261)**

Fair value (FV) and carrying value of unit-linked financial instruments

Table 27.1b

in USD millions, as of December 31	Fair value		Carrying value	
	2009	2008	**2009**	2008
Cash and cash equivalents	5,840	4,460	5,840	4,460
Investments at FV through profit or loss				
Designated at FV				
Debt securities	10,194	9,510	10,194	9,510
Equity securities	78,311	60,154	78,311	60,154
Other loans	924	2	924	2
Total investments at FV through profit or loss	89,429	69,666	89,429	69,666
Derivative assets	98	95	98	95
Total	**95,368**	**74,222**	**95,368**	**74,222**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	(40,143)	(30,397)	(40,143)	(30,397)

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 derivatives traded over-the-counter. While markets for these instruments do not meet the strict requirements to be classified as active, they offer sufficient transaction volumes and, therefore, observable market data to enable the Group to determine their fair value. The Group has also classified under Level 2 liabilities related to unit-linked investment contracts and obligations to repurchase securities.

Level 3 – this category includes financial assets and liabilities for which fair values are determined using valuation techniques with at least one significant input not being based on observable market data. In circumstances when there is little, if any, market activity for a certain instrument, a valuator is required to develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability. This would normally apply in the case of investments in hedge funds, private equity funds, asset-backed securities for which currently very limited market activity is observed, and long-dated derivatives. The effect of changes in the internal valuation inputs to reasonably possible alternative values is disclosed under "Sensitivity of fair values reported for Level 3 instruments to changes in key assumptions".

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

Fair Value Hierarchy

Table 27.2

in USD millions, as of December 31, 2009	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	45,300	76,081	2,977	124,358
Equity securities	3,939	2,528	965	7,432
Total available-for-sale securities	49,238	78,610	3,942	131,790
Securities at FV through profit or loss				
Trading				
Debt securities	73	8	–	82
Equity securities	–	35	844	879
Designated at FV				
Debt securities	2,511	4,030	220	6,761
Equity securities	901	933	2,305	4,138
Total securities at FV through profit or loss	3,486	5,006	3,369	11,860
Derivative assets	–	1,200	40	1,240
Total	**52,724**	**84,816**	**7,351**	**144,890**
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	–	(3,976)	–	(3,976)
Derivative liabilities	–	(623)	(37)	(660)
Total	**–**	**(4,599)**	**(37)**	**(4,636)**

Roll forward analysis for financial instruments classified under Level 3

Table 27.3

in USD millions	Available-for-sale securities		Securities at FV through profit or loss				
			Trading	Designated at FV			
	Debt securities	Equity securities	Equity securities	Debt securities	Equity securities	Derivative assets	Derivative liabilities
As of January 1, 2009	3,122	1,118	1,314	201	2,350	89	(23)
Realized gains/(losses) recognized in income[1]	(43)	1	(8)	1	42	–	(5)
Unrealized gains/(losses) recognized in income[1]	(303)	(134)	64	13	150	(50)	(15)
Unrealized gains/(losses) recognized in shareholders' equity	511	(183)	–	–	–	–	–
Purchases	137	164	159	2	589	–	–
Sales/Redemptions/Settlements	(786)	(23)	(652)	(10)	(855)	–	5
Net transfers into Level 3	315	2	–	10	–	–	–
Foreign currency translation effects	24	21	(32)	4	28	1	–
As of December 31, 2009	**2,977**	**965**	**844**	**220**	**2,305**	**40**	**(37)**

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

Sensitivity of fair values reported for Level 3 instruments to changes in key assumptions

The Group has classified under Level 3 a total amount of USD 3.2 billion of asset-backed securities (ABSs) held as Group investments. These ABSs include non-agency backed securities for which the limited market activity observed at year end required our 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 prepayment, recovery and default rates. 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 table 27.4. While the table below illustrates 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 the 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 fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

Table 27.4

Sensitivity analysis of Level 3 ABSs to changes in key assumptions

as of December 31, 2009	Less favourable values (relative change)	Decrease of reported fair value USD millions	More favourable values (relative change)	Increase of reported fair value USD millions
Key assumptions				
Discount margins	+20%	(171)	-20%	183
Prepayment rates	-20%	(39)	+20%	33
Recovery rates	-20%	(37)	+20%	27
Default rates	+20%	(18)	-20%	12

The Group has also classified under Level 3 a total amount of USD 3.3 billion of investments in hedge funds and private equity funds that are valued based on regular reports from the issuing funds. Fair values of such investments are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments. Investments in hedge funds and private equity funds have not been included in the sensitivity analysis due to the large number of valuation assumptions that while, in total, have a significant effect on the fair value of these investments, when considered individually, the impact of changing them to reasonably possible alternative values would not be significant.

Unit-linked financial instruments

Table 27.5

Fair Value Hierarchy

in USD millions, as of December 31, 2009	Level 1	Level 2	Level 3	Total
Investments at FV through profit or loss				
Designated at FV				
Debt securities	4,189	5,875	130	10,194
Equity securities	47,895	25,837	4,579	78,311
Other loans	–	924	–	924
Total investments at FV through profit or loss	52,084	32,636	4,709	89,429
Derivative assets	–	98	–	98
Total	**52,084**	**32,734**	**4,709**	**89,527**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	–	(40,143)	–	(40,143)

Roll forward analysis for financial assets classified under Level 3

Table 27.6

in USD millions	Securities at FV through profit or loss	
	Designated at FV	
	Debt securities	Equity securities
As of January 1, 2009	138	4,554
Realized gains/(losses) recognized in income[1]	6	18
Unrealized gains/(losses) recognized in income[1]	1	48
Purchases	12	100
Sales/Redemptions	(32)	(145)
Foreign currency translation effects	4	4
As of December 31, 2009	**130**	**4,579**

[1] Presented under "Net investment result on unit-linked investments" in the Consolidated income statements.

28. Related party transactions

In the normal course of business, the Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the Group, either individually or in aggregate. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

The table below sets out related party transactions with equity method accounted investments, as well as other related parties, such as our distribution partners of the jointly owned companies in Spain, reflected in the consolidated income statements and consolidated balance sheets.

Related party transactions included in the Consolidated Financial Statements

Table 28.1

in USD millions	2009	2008
Consolidated income statements for the years ended December 31		
Net earned premiums and policy fees	10	10
Net investment income	3	9
Net investment expense	(1)	–
Other income/(expense)	–	11
Losses and loss adjustment expenses	(11)	(8)
Adminstrative and other operating expenses	(6)	(2)
Consolidated balance sheets as of December 31		
Cash and bank deposits	158	171
Other loans	1,095	1,457
Total unit-linked investments	2,349	818
Receivables	1	7
Policyholders' collateral and other loans	12	15
Reserves for losses and loss adjustment expenses	(12)	(8)

Table 28.2 summarizes related party transactions with key personnel reflected in the Consolidated Financial Statements. Key personnel includes Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd and the Members of the Group Executive Committee.

Table 28.2

Related party transactions – key personnel

in USD millions, for the years ended December 31	2009	2008
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	29	39
Post-employment benefits	4	4
Share-based compensation	31	34
Total remuneration of key personnel	**64**	77

Outstanding loans and guarantees granted to Members of the Group Executive Committee amounted to USD 1 million for both the years ended December 31, 2009 and 2008. Outstanding loans and guarantees granted to Members of the Board of Directors amounted to USD 2 million for the years ended December 31, 2009 and 2008. The terms "Directors" and "Members of the Group Executive Committee" in this context include the individual as well as members of their respective households. The above figures include the fees paid to members of the Board of Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd, which were USD 3 million, for the years ended December 31, 2009 and 2008.

No provision for non-repayment has been required in 2009 and 2008 for the loans or guarantees made to Members of the Group Executive Committee.

Information required by art. 663b^{bis} 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.

29. Farmers Exchanges

Farmers Group, Inc. (FGI) and its subsidiaries provide certain non-claims related management services to the Farmers Exchanges, which the Group manages but does not own. In addition, the Group has the following relationships with the Farmers Exchanges.

a) Surplus note and certificates of contribution issued by the Farmers Exchanges

As of December 31, 2009 and 2008, FGI and other Group companies held the following surplus note and certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 29

Surplus Notes

in USD millions, as of December 31	2009	2008
6.15% surplus note, due December 2013	88	88
6.15% certificates of contribution, due December 2013	523	523
6.15% certificates of contribution, due August 2014	296	296
10.30% certificates of contribution, due December 2013	300	300
Various other certificates of contribution	23	23
Total	**1,230**	**1,230**

Conditions governing payment of interest and repayment of principal are outlined in the surplus note and certificates of contribution. Generally, repayment of principal may be made only when the issuer has an appropriate amount of surplus, and then only after approval is granted by the issuer's governing board and the appropriate state insurance regulatory department in the U.S. In addition, payment of interest may generally be made only when the issuer has an appropriate amount of surplus and then only after approval is granted by the appropriate state insurance regulatory department in the U.S.

b) Quota share reinsurance treaties with the Farmers Exchanges

The Farmers Exchanges cede risk through quota share reinsurance treaties to Farmers Reinsurance Company (Farmers Re), a wholly owned subsidiary of FGI, and to Zurich Insurance Company Ltd (ZIC).

Auto Physical Damage Quota Share reinsurance agreement

Effective January 1, 2004, annually, Farmers Re assumes USD 200 million and ZIC assumes USD 800 million of gross written premiums under an Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges. In addition, Farmers Re 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, which can be terminated after 30 days notice by any of the parties, also provides for the Farmers Exchanges to receive a ceding commission of 18.0 percent of premiums, with additional experience commissions that depend on loss experience. This experience commission arrangement limits Farmers Re and ZIC's potential underwriting gain on the assumed business to 2.5 percent of premiums assumed. The APD agreement was initially entered into on April 1, 2001, which replaced a January 1, 1998 reinsurance agreement.

The following are the significant changes to the 2004 APD agreement:

- Effective January 1, 2006, the Farmers Exchanges modified the terms of the APD agreement with Farmers Re and ZIC. The new APD agreement provides for annual ceded premiums of USD 1 billion of gross written premiums with 20.0 percent assumed by Farmers Re and 80.0 percent assumed by ZIC, a 25.8 percent ceding commission for acquisition expenses, and an 8.2 percent ceding commission for unallocated loss adjustment expense. 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 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, which can be cancelled

after 90 days notice by any of the parties, was renewed with the same terms on January 1, 2009 and has a termination date of December 31, 2011.

Farmers Exchanges' share of ceded premiums amounted to USD 1 billion for both the years ended December 31, 2009 and 2008. Ceded incurred losses and loss adjustment expenses totaled USD 667 million and USD 678 million for the years ended December 31, 2009 and 2008, respectively. Farmers Exchanges' share of the total experience commission income was USD 299 million and USD 294 million for the years ended December 31, 2009 and 2008, respectively.

All Lines Quota Share reinsurance agreement

Effective December 31, 2002, certain of the Farmers Exchanges began participating in a 10.0 percent All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Re and ZIC which has been amended over the years. 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. Loss recoveries are subjected to a maximum ratio. In addition, under this treaty the Farmers Exchanges' catastrophe losses are subject to a maximum of USD 800 million. The All Lines agreement also provided for the Farmers Exchanges to receive a provisional ceding commission of 22.0 percent of premiums for acquisition expenses which are recognized as ceded premiums are written, and 8.8 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses which are both recognized as premiums are earned, with additional experience commissions potentially payable depending on loss experience.

The following are the significant changes to the 2002 All Lines agreement:

- Effective December 31, 2004, the 10.0 percent All Lines agreement was amended and the quota share participation was increased by 2.0 percent to 12.0 percent;

- Effective December 31, 2005, the quota share participation was decreased from 12.0 percent to 6.0 percent;

- Effective December 31, 2007, the quota share participation was further reduced by 1.0 percent to 5.0 percent. In addition, under this treaty the Farmers Property and Casualty (P&C) Companies' catastrophe losses were changed from USD 800 million to a maximum of USD 1 billion;

- Effective September 30, 2008, the quota share was modified and the participation was increased from 5.0 percent to 25.0 percent. In addition to this change, the ceding commission for acquisition expenses was increased from 22.0 percent to 25.0 percent;

- Effective June 30, 2009, the All Lines agreement was cancelled subsequent to which Farmers Re and ZIC entered into a new 37.5 percent All Lines agreement under which each assumes a percentage of all lines of business written by the Farmers P&C Companies, prospectively. Under the All Lines agreement, which amended the 25.0 percent All Lines agreement in effect since September 30, 2008, Farmers Re and ZIC assume a 7.5 percent and 30.0 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers P&C Companies after the APD agreement has been applied. In addition, under the All Lines agreement, the Farmers P&C Companies catastrophe losses are subject to a maximum of USD 1 billion. As a result, Farmers Re and ZIC are subject to a maximum annual catastrophe loss of USD 75 million and USD 300 million, respectively. The All Lines agreement, which can be terminated after 90 days notice by any of the parties, also provides for the Farmers P&C Companies to receive a provisional ceding commission of 25.0 percent of premiums for acquisition expenses, 8.8 percent of premiums for unallocated loss adjustment expense and 5.3 percent of premiums for other expenses. Unearned premiums totaling USD 970 million were transferred from the Farmers P&C Companies to Farmers Re and ZIC as a result of their increased participation in the All Lines agreement through September 30, 2009. In addition, Farmers Re and ZIC remitted USD 242 million of reinsurance commissions to the Farmers P&C Companies for acquisition expenses due to the increased participation in the All Lines agreement.

- Effective December 31, 2009, the All Lines quota share reinsurance agreement was modified and the participation ratio was decreased by 2.5 percent to 35 percent. In addition to this chance, the provisional ceding commission for acquisition expenses was increased from 25.0 percent to 25.7 percent, and the ceding commission for unallocated loss adjustment expense increased from 8.8 percent to 9.0 percent.

Based on the results for 2009 and 2008, Farmers Exchanges' share of recoveries were USD 3,239 million and USD 940 million, respectively. For the years ended December 31, 2009 and 2008, Farmers Exchanges' share of ceded premiums earned were USD 4,722 million and USD 1,379 million, respectively. Farmers Exchanges' share of ceding commissions was USD 1,461 million and USD 403 million for the years ended December 31, 2009 and 2008, respectively.

c) North America Commercial Small Business Solutions (SBS)

On June 13, 2008, the Group completed the sale of the rights to access renewals of its North America Commercial Small Business Solutions (SBS) book of business to Truck Insurance Exchange (TIE), one of the Farmers Exchanges, which the Group manages but does not own. As part of the transaction, the Group has entered into a 100 percent quota share reinsurance agreement for the in-force business as of June 1, 2008. This resulted in the Group paying TIE the balance of unearned premium reserve related to the business ceded to TIE of USD 425 million and TIE compensating the Group for its deferred acquisition cost balance as of the effective date of the transaction by paying a ceding commission of USD 120 million. In addition, the management of the in-force SBS book of business has been transferred together with certain assets and liabilities to FGI. This transaction had no impact on the scope of consolidation.

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

Global Life pursues a strategy with market-leading propositions in unit-linked and protection products through global distribution and proposition pillars to develop leadership positions in its chosen 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 the Group manages, but does not own, and to their customers. This segment also includes the Farmers Re business, which includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal lines and small commercial lines business in the U.S.

For the purpose of discussing our financial performance we consider General Insurance, Global Life and Farmers to be our core operating segments.

Other Operating Businesses predominantly consist of the Group´s Headquarter and Holding & Financing activities. In addition, certain alternative investment positions not allocated to core operating segments are carried in this segment.

Non-Core Businesses include insurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off.

In addition, Non-Core Businesses now also include the Group's banking activities that, following a strategic review, are no longer seen to support the core insurance business, but as a useful adjunct to it. As a result management responsibility over banking activities has been transferred as of September 30, 2009 and to reflect this transfer the segment analysis has been aligned by moving them from Other Operating Businesses to Non-Core Businesses.

Throughout 2009, the structured alignment of the Group´s segment information compared with 2008 necessitated the following major transfers between the old 2008 and the new 2009 segments:

- Farmers Re from the previously reported Other Businesses to Farmers
- Universal Underwriters Life Insurance Company from the previously reported Other Businesses to Global Life
- Centre from the previously reported Other Businesses to Non-Core Businesses
- Centrally Managed Businesses from the previously reported Other Businesses to Non-Core Businesses

The Group also manages its business on a geographic structure. As a result of the realignment of the previous International Businesses region into a new regional structure, as of January 1, 2009, Southern Africa is part of an expanded Europe & Africa region, Latin America is part of an expanded Americas region and Asia-Pacific & Middle East forms a new stand-alone region. The Group's identified regions are as follows:

Americas

Europe & Africa

Asia-Pacific & Middle East

Central Region

To be consistent with the Group's geographic structure, the following major transfers between regions have been made for 2009 financial reporting:

- Reporting Units in Southern Africa from the previous International Businesses to Europe & Africa
- Reporting Units in Latin America from the previous International Businesses to Americas
- Universal Underwriters Life Insurance Company from Central Region to Americas

The 2008 segmental results have been restated to reflect these changes, with no impact on the Group's financial position or performance.

The segment information includes the Groups' internal performance measure, Business Operating Profit (BOP). This measure is the basis on which business units are managed. It indicates the underlying performance of the business units by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains on investments and impairments (except for the capital markets and banking operations included in Other Operating Businesses and investments in hedge funds and certain securities held for specific economic hedging purposes), policyholders' share of investment results for the life businesses, non-operational foreign exchange movements, and significant items arising from special circumstances, including restructuring charges and gains and losses on divestments of businesses.

Business operating profit by business segment

Table 30.1

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2009	2008	**2009**	2008
Revenues				
Direct written premiums and policy fees[1]	32,516	35,357	12,343	10,694
Assumed written premiums	1,641	1,794	97	100
Gross written premiums and policy fees	34,157	37,151	12,440	10,794
Less premiums ceded to reinsurers	(5,222)	(5,646)	(769)	(741)
Net written premiums and policy fees	28,935	31,505	11,672	10,053
Net change in reserves for unearned premiums	136	(583)	6	–
Net earned premiums and policy fees	29,071	30,922	11,677	10,053
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	3,181	3,623	4,032	3,688
Net investment income on Group investments	3,070	3,711	4,081	4,518
Net capital gains/(losses) and impairments on Group investments	110	(88)	(49)	(829)
Net investment result on unit-linked investments	–	–	11,697	(19,039)
Other income	852	736	854	1,195
Total BOP revenues	33,103	35,281	28,261	(4,102)
of which: inter-segment revenues	*(385)*	*(520)*	*(294)*	*(202)*
Benefits, losses and expenses				
Insurance benefits and losses, net	20,622	22,441	10,594	9,229
Losses and loss adjustment expenses, net	20,590	22,388	53	29
Life insurance death and other benefits, net	40	53	10,577	9,888
(Decrease)/increase in future life policyholders' benefits, net[1]	(8)	–	(36)	(688)
Policyholder dividends and participation in profits, net	15	16	12,018	(18,942)
Income tax expense/(benefit) attributable to policyholders	–	–	387	(1,184)
Underwriting and policy acquisition costs, net	5,375	5,679	1,116	1,887
Administrative and other operating expense (excl. depreciation/amortization)	3,303	3,190	1,857	2,138
Interest credited to policyholders and other interest	32	195	444	521
Restructuring provisions and other items not included in BOP	(170)	(246)	(119)	423
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	29,177	31,277	26,296	(5,929)
Business operating profit (before interest, depreciation and amortization)	**3,927**	**4,004**	**1,965**	**1,826**
Depreciation and impairments of property and equipment	80	77	34	42
Amortization and impairments of intangible assets	177	133	346	224
Interest expense on debt	209	235	93	45
Business operating profit before non-controlling interests	3,460	3,559	1,492	1,516
Non-controlling interests	(3)	24	15	26
Business operating profit	**3,463**	**3,535**	**1,477**	**1,490**
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	474	1,614	407	3,127

[1] The Global Life segment includes approximately USD 2,698 million and USD 1,250 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in our Spanish operations for the years ended December 31, 2009 and 2008, respectively (see note 3).

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
–	–	–	(6)	566	469	(11)	19	45,414	46,532
6,615	3,381	142	182	134	184	(226)	(279)	8,403	5,362
6,615	3,381	142	176	700	652	(237)	(260)	53,817	51,894
–	–	(52)	(61)	(39)	(39)	237	260	(5,844)	(6,226)
6,615	3,381	90	115	661	613	–	–	47,973	45,667
(893)	(1,002)	–	–	5	25	–	–	(746)	(1,560)
5,722	2,378	90	116	666	638	–	–	47,227	44,107
2,690	2,458	–	–	–	–	–	–	2,690	2,458
174	160	461	603	333	468	(880)	(998)	7,301	7,544
174	160	461	528	598	779	(880)	(998)	7,505	8,698
–	–	–	75	(265)	(311)	–	–	(204)	(1,154)
–	–	–	–	778	(2,692)	–	–	12,475	(21,731)
85	21	1,101	1,044	186	17	(1,277)	(1,320)	1,802	1,693
8,672	5,018	1,653	1,763	1,963	(1,569)	(2,157)	(2,318)	71,496	34,071
(90)	*(97)*	*(1,312)*	*(1,386)*	*(77)*	*(114)*	*2,157*	*2,318*	–	–
3,904	1,622	86	175	1,055	1,344	–	–	36,261	34,811
3,904	1,622	5	1	49	106	38	–	24,639	24,145
–	–	82	101	656	495	1	–	11,356	10,538
–	–	–	73	350	743	(39)	1	266	128
–	–	–	–	826	(2,588)	–	–	12,859	(21,514)
–	–	–	–	–	–	–	–	387	(1,184)
1,760	696	12	14	9	14	(18)	(3)	8,254	8,287
1,311	1,210	962	1,067	138	(249)	(1,215)	(1,282)	6,356	6,074
–	–	1	9	59	71	(4)	(24)	533	773
(34)	2	81	99	6	58	–	–	(236)	336
6,941	3,531	1,143	1,364	2,093	(1,351)	(1,237)	(1,309)	64,413	27,583
1,731	**1,487**	**510**	**399**	**(129)**	**(219)**	**(921)**	**(1,009)**	**7,083**	**6,488**
86	63	35	33	11	4	–	–	245	218
82	59	38	18	3	3	–	–	647	437
8	9	1,049	1,122	147	198	(921)	(1,009)	586	599
1,554	1,356	(611)	(774)	(290)	(423)	–	–	5,605	5,234
–	–	–	(2)	1	–	–	–	12	48
1,554	**1,356**	**(611)**	**(772)**	**(290)**	**(423)**	**–**	**–**	**5,593**	**5,186**
917	171	81	151	(1)	13	–	–	1,877	5,076

Reconciliation of BOP to net income after income taxes

Table 30.2

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2009	2008	**2009**	2008
Business operating profit	**3,463**	**3,535**	**1,477**	**1,490**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	(674)	(1,172)	(441)	(411)
Net gain/(loss) on divestments of businesses	(2)	14	–	4
Restructuring provisions and other	(170)	(246)	(119)	423
Add back:				
Business operating profit attributable to non-controlling interests	(3)	24	15	26
Net income before shareholders' taxes	**2,614**	**2,156**	**931**	**1,531**
Income tax expense attributable to policyholders	–	–	387	(1,184)
Net income before income taxes	**2,614**	**2,156**	**1,318**	**347**
Income tax expense (attributable to policyholders and shareholders)				
Net income after taxes				

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	1,554	**1,356**	**(611)**	**(772)**	**(290)**	**(423)**	**5,593**	**5,186**
	(50)	(56)	(62)	(59)	8	(41)	(1,219)	(1,739)
	–	–	–	–	(3)	(1)	(5)	16
	(34)	2	81	99	6	58	(236)	336
	–	–	–	(2)	1	–	12	48
	1,470	**1,302**	**(592)**	**(734)**	**(279)**	**(408)**	**4,145**	**3,847**
	–	–	–	–	–	–	387	(1,184)
	1,470	**1,302**	**(592)**	**(734)**	**(279)**	**(408)**	**4,531**	**2,663**
							(1,295)	452
							3,236	**3,116**

Assets and liabilities by business segment

Table 30.3

in USD millions, as of December 31	General Insurance		Global Life	
	2009	2008	**2009**	2008
Assets				
Total Group Investments	85,413	77,328	101,597	94,626
Cash and cash equivalents	9,940	9,703	4,385	5,130
Equity securities	4,743	5,966	5,342	4,816
Debt securities	63,594	53,578	62,883	56,256
Real estate held for investment	3,004	2,922	4,408	4,228
Mortgage loans	1,483	1,794	9,021	8,953
Other loans	2,623	3,340	15,432	15,131
Equity method accounted investments	25	26	125	113
Investments for unit-linked contracts	–	–	87,430	65,977
Total investments	85,413	77,328	189,026	160,604
Reinsurers' share of reserves for insurance contracts	12,957	12,749	2,160	2,008
Deposits made under assumed reinsurance contracts	66	68	3	–
Deferred policy acquisition costs	3,374	3,247	12,276	10,768
Deferred origination costs	–	–	856	770
Goodwill	1,029	895	442	395
Other intangible assets	1,419	1,303	4,000	3,925
Other assets[1]	15,339	16,119	6,730	6,835
Total assets (after cons. of investments in subsidiaries)	**119,597**	**111,710**	**215,494**	**185,304**
Liabilities				
Liabilities for investment contracts	–	–	46,374	36,230
Reserves for insurance contracts	79,900	77,468	136,256	120,706
Reserves for losses and loss adjustment expenses	63,476	61,396	35	18
Reserves for unearned premiums	15,191	14,874	302	226
Future life policyholders' benefits	98	95	74,760	72,782
Policyholders' contract deposits and other funds	1,135	1,102	14,691	12,611
Reserves for unit-linked contracts	–	–	46,468	35,069
Debt related to capital markets and banking activities	–	–	–	–
Senior debt	3,462	3,031	265	694
Subordinated debt	2,054	2,189	1,019	412
Other liabilities	14,942	14,680	17,615	15,399
Total liabilities	**100,357**	**97,368**	**201,530**	**173,441**
Equity				
Common shareholders' equity				
Preferred securities				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				

[1] As of December 31, 2009, for the General Insurance segment, other assets include USD 67 million related to land and buildings held for own use reclassified in March and December 2009 as assets held for sale.

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	4,561	3,607	18,027	15,193	15,826	15,415	(29,167)	(26,600)	196,258	179,570
	734	714	6,226	6,682	2,762	2,935	(12,417)	(12,736)	11,631	12,428
	85	224	1,538	2,277	742	1,021	–	–	12,450	14,303
	1,302	696	2,920	1,478	6,669	6,644	(1,024)	(365)	136,344	118,287
	149	156	46	44	181	175	–	–	7,789	7,524
	–	–	–	–	2,264	2,104	(33)	(32)	12,736	12,820
	2,290	1,817	7,294	4,708	3,129	2,459	(15,693)	(13,468)	15,077	13,988
	–	–	3	3	79	78	–	–	232	220
	–	–	–	–	11,737	12,226	–	–	99,167	78,203
	4,561	3,607	18,027	15,193	27,563	27,641	(29,167)	(26,600)	295,425	257,773
	211	209	(95)	–	4,688	5,477	(1,293)	(1,849)	18,627	18,595
	3,158	1,685	–	–	664	677	(29)	(32)	3,861	2,397
	529	307	–	–	2	2	–	–	16,181	14,323
	–	–	–	–	–	–	–	–	856	770
	821	382	5	5	–	–	–	–	2,297	1,677
	1,397	1,207	219	185	9	13	–	–	7,044	6,633
	1,547	1,500	1,737	1,907	1,306	1,704	(2,037)	(2,289)	24,621	25,776
	12,224	**8,897**	**19,893**	**17,290**	**34,233**	**35,514**	**(32,527)**	**(30,771)**	**368,914**	**327,944**
	–	–	–	–	–	–	(250)	(251)	46,124	35,979
	3,946	2,095	365	415	22,221	23,325	(1,276)	(1,831)	241,412	222,179
	1,793	835	49	44	3,531	4,147	(799)	(1,223)	68,086	65,218
	2,153	1,260	5	5	33	43	(7)	(10)	17,676	16,399
	–	–	311	366	3,890	3,573	(470)	(598)	78,589	76,218
	–	–	–	–	3,030	3,334	1	–	18,857	17,047
	–	–	–	–	11,736	12,228	–	–	58,204	47,297
	–	–	553	–	2,584	3,632	(2,298)	(1,106)	839	2,527
	–	–	23,224	19,893	1,082	1,054	(21,756)	(21,314)	6,277	3,358
	–	180	5,206	5,169	155	73	(3,268)	(2,926)	5,167	5,096
	1,801	1,582	1,709	2,707	5,228	3,999	(3,679)	(3,344)	37,616	35,024
	5,747	**3,858**	**31,058**	**28,184**	**31,270**	**32,083**	**(32,527)**	**(30,771)**	**337,435**	**304,163**
									29,117	21,542
									561	561
									29,678	22,103
									1,800	1,678
									31,478	23,781
									368,914	**327,944**

General Insurance – Customer segment overview

Table 30.4

in USD millions, for the years ended December 31	Global Corporate		North America Commercial	
	2009	2008	**2009**	2008
Gross written premiums and policy fees	7,602	7,888	9,864	11,215
Net earned premiums and policy fees	4,738	4,834	8,331	9,258
Insurance benefits and losses, net	3,540	4,457	5,711	6,508
Policyholder dividends and participation in profits, net	3	4	8	11
Total net technical expenses	964	975	2,355	2,495
Net underwriting result	231	(602)	257	243
Net investment income	601	689	1,150	1,253
Net capital gains/(losses) and impairments on investments	35	(29)	52	(37)
Net non-technical result (excl. items not included in BOP)	(79)	(10)	(216)	(222)
Business operating profit before non-controlling interests	787	47	1,243	1,237
Non-controlling interests	–	–	–	–
Business operating profit	787	47	1,243	1,238
Ratios, as % of net earned premiums and policy fees				
Loss ratio	74.7%	92.2%	68.5%	70.3%
Expense ratio	20.4%	20.2%	28.4%	27.1%
Combined ratio	95.1%	112.4%	96.9%	97.4%

Europe General Insurance		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
14,556	15,946	2,695	2,753	486	502	(1,046)	(1,153)	34,157	37,151
13,894	14,776	2,057	1,999	51	55	–	–	29,071	30,922
10,230	10,334	1,265	1,204	(124)	(61)	–	–	20,622	22,441
4	1	–	–	–	–	–	–	15	16
3,439	3,652	727	719	18	28	1	1	7,504	7,871
222	788	64	76	157	88	(1)	(1)	930	594
1,102	1,504	162	180	62	142	(6)	(57)	3,070	3,711
23	(21)	–	–	–	–	–	–	110	(88)
(236)	(389)	(51)	(49)	(75)	(45)	7	58	(651)	(657)
1,111	1,882	175	207	144	186	–	–	3,460	3,559
(9)	17	5	7	–	–	–	–	(3)	24
1,120	1,864	169	201	144	186	–	–	3,463	3,535

73.6%	69.9%	61.5%	60.2%	nm	nm	n/a	n/a	70.9%	72.6%
24.8%	24.7%	35.3%	36.0%	nm	nm	n/a	n/a	25.9%	25.5%
98.4%	94.7%	96.9%	96.2%	nm	nm	n/a	n/a	96.8%	98.1%

General Insurance – Revenues by region

Table 30.5

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers	
	2009	2008
Global Corporate		
North America	2,685	2,966
Europe	4,298	4,546
Rest of Global Corporate	370	129
Subtotal	7,353	7,640
Europe & Africa		
United Kingdom	3,170	3,941
Germany	2,944	3,096
Switzerland	2,259	2,339
Italy	2,213	2,276
Spain	1,338	1,496
Southern Africa	650	654
Rest of Europe & Africa	1,899	2,013
Subtotal	14,473	15,816
Americas		
United States	9,189	10,469
Rest of North America	469	520
Latin America	1,353	1,236
Subtotal	11,012	12,225
Asia-Pacific & Middle East		
Asia-Pacific Mature Markets	1,070	1,141
China & South East Asia	229	311
Subtotal	1,299	1,452
Central Region		
Europe	2	1
Subtotal	2	1
Total	**34,138**	**37,133**

General Insurance – Assets by region

Table 30.6

in USD millions, as of December 31	Property / equipment and intangible assets	
	2009	2008
Europe & Africa		
United Kingdom	222	211
Germany	253	259
Switzerland	127	109
Italy	75	128
Spain	747	764
Southern Africa	22	10
Rest of Europe & Africa	1,437	1,341
Subtotal	2,883	2,822
Americas		
United States	216	244
Rest of North America	6	3
Latin America	164	46
Subtotal	386	293
Asia-Pacific & Middle East		
Asia-Pacific Mature Markets	93	68
China & South East Asia	24	23
Subtotal	117	90
Total	**3,385**	**3,206**

Global Life – Overview

Table 30.7

in USD millions, for the years ended December 31

	Americas		United Kingdom		Germany	
	2009	2008	**2009**	2008	**2009**	2008
Revenues						
Life insurance deposits	619	555	3,612	3,708	2,118	1,872
Gross written premiums and policy fees[1]	1,257	1,087	1,096	1,094	3,431	3,906
Net earned premiums and policy fees	982	841	923	931	3,323	3,797
Net investment income on Group investments	437	433	342	710	1,733	1,899
Net capital gains/(losses) and impairments on Group investments	10	(26)	3	(326)	(125)	(398)
Net investment result on Group investments	446	407	346	384	1,608	1,500
Net investment income on unit-linked investments	(15)	20	1,500	2,360	107	128
Net capital gains/(losses) and impairments on unit-linked investments	161	(312)	5,118	(13,520)	1,582	(3,156)
Net investment result on unit-linked investments	146	(291)	6,618	(11,160)	1,689	(3,028)
Other income	117	124	187	399	181	316
Total BOP revenues	1,691	1,081	8,074	(9,445)	6,801	2,585
Benefits, losses and expenses						
Insurance benefits and losses, net[1]	646	557	365	598	3,604	3,891
Policyholder dividends and participation in profits, net	150	(261)	6,472	(10,721)	1,948	(3,556)
Income tax expense/(benefit) attributable to policyholders	–	–	311	(1,300)	50	180
Underwriting and policy acquisition costs, net	46	123	249	861	317	407
Administrative and other operating expense (excl. depreciation/amortization)	223	193	412	458	335	578
Interest credited to policyholders and other interest	169	171	11	64	160	216
Restructuring provisions and other items not included in BOP	1	1	(56)	43	–	450
Total BOP benefits, losses and expenses	1,233	784	7,764	(9,998)	6,414	2,166
Business operating profit (before interest, depreciation and amortization)	**458**	**297**	**311**	**553**	**387**	**419**
Depreciation and impairments of property and equipment	2	2	10	12	12	14
Amortization and impairments of intangible assets	(8)	1	30	109	41	57
Interest expense on debt	3	2	11	3	–	–
Business operating profit before non-controlling interests	462	292	261	429	334	348
Non-controlling interests	5	2	–	–	10	16
Business operating profit	**458**	**290**	**261**	**429**	**324**	**332**
Supplementary information						
Gross written premiums and policy fees from external customers	1,257	1,087	1,089	1,089	3,379	3,846
Property, equipment and intangible assets	297	244	446	403	1,020	996

1 The Global Life segment includes approximately USD 2,698 million and USD 1,250 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in our Spanish operations for the years ended December 31, 2009 and 2008, respectively (see note 3).

	Switzerland		Ireland		Spain		Emerging Markets in Asia		Rest of the world		Eliminations		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	81	89	1,912	1,586	2,266	808	1,215	1,673	1,765	789	–	–	13,589	11,079
	1,607	1,753	385	353	3,523	1,635	255	198	924	781	(36)	(14)	12,440	10,794
	1,600	1,746	287	263	3,495	1,618	215	160	852	696	–	–	11,677	10,053
	606	627	87	98	476	280	34	54	366	416	–	–	4,081	4,518
	43	(113)	(39)	(5)	8	–	45	74	4	(35)	–	–	(49)	(829)
	649	514	49	93	484	280	79	128	370	381	–	–	4,032	3,688
	2	6	171	212	75	29	8	12	71	257	–	–	1,920	3,026
	52	(127)	967	(2,378)	249	(243)	1,034	(1,016)	615	(1,313)	–	–	9,777	(22,065)
	54	(121)	1,138	(2,165)	324	(214)	1,042	(1,003)	686	(1,056)	–	–	11,697	(19,039)
	45	120	2	2	44	19	79	49	201	170	(3)	(3)	854	1,195
	2,348	2,259	1,476	(1,807)	4,347	1,703	1,416	(666)	2,110	191	(3)	(3)	28,261	(4,102)
	1,539	1,671	61	96	3,613	1,727	109	86	657	602	–	–	10,594	9,229
	198	(38)	1,128	(2,124)	340	(213)	1,011	(1,045)	771	(983)	–	–	12,018	(18,942)
	–	–	20	(5)	–	–	–	–	6	(59)	–	–	387	(1,184)
	152	157	100	84	53	17	76	94	123	144	–	–	1,116	1,887
	222	298	86	63	99	63	109	138	376	350	(3)	(3)	1,857	2,138
	16	22	43	–	2	8	28	28	17	13	–	–	444	521
	(21)	(53)	–	–	(45)	(16)	10	4	(9)	(7)	–	–	(119)	423
	2,105	2,057	1,438	(1,886)	4,062	1,587	1,343	(695)	1,941	60	(3)	(3)	26,296	(5,929)
	243	**202**	**39**	**79**	**286**	**116**	**72**	**29**	**169**	**131**	**–**	**–**	**1,965**	**1,826**
	4	7	1	1	–	–	4	4	1	1	–	–	34	42
	–	–	1	1	203	43	4	2	75	11	–	–	346	224
	2	6	–	–	69	25	–	1	9	8	–	–	93	45
	237	190	37	77	13	48	64	21	84	111	–	–	1,492	1,516
	–	–	–	–	1	9	–	–	–	–	–	–	15	26
	237	**190**	**37**	**77**	**13**	**39**	**64**	**21**	**84**	**111**	**–**	**–**	**1,477**	**1,490**
	1,606	1,753	385	353	3,523	1,635	221	189	909	779	–	–	12,369	10,731
	198	159	5	6	2,859	2,742	11	14	163	270	–	–	4,998	4,835

Farmers – Overview

Table 30.8

in USD millions, for the years ended December 31		Total
	2009	2008
Farmers Management Services		
Management fees and other related revenues	2,690	2,458
Management and other related expenses	1,399	1,317
Gross management result	1,291	1,142
Other net income (excl. items not included in BOP)	35	60
Business operating profit before non-controlling interest	1,326	1,202
Business operating profit	1,326	1,202
Farmers Re		
Gross written premiums and policy fees	6,615	3,381
Net earned premiums and policy fees	5,722	2,378
Insurance benefits and losses, net	(3,904)	(1,622)
Total net technical expenses	(1,760)	(697)
Net underwriting result	58	59
Net non-technical result (excl. items not relevant for BOP)	71	19
Net investment result income	100	75
Business operating profit before non-controlling interests	228	154
Business operating profit	228	154
Farmers business operating profit	**1,554**	**1,356**

Ratios, as % of net earned premiums and policy fees		
Farmers Re Combined ratio	99.0%	97.5%

Supplementary information		
Property, equipment and intangible assets[1]	2,541	1,811

[1] As of December 31, 2009 and 2008, respectively.

Other Operating Businesses – Overview

Table 30.9

in USD millions, for the years ended December 31	Alternative Investments	
	2009	2008
Gross written premiums and policy fees	–	–
Net earned premiums and policy fees	–	–
Net investment income	8	10
Net capital gains/(losses) and impairments on investments	–	–
Other income	11	11
Total BOP revenues	19	21
Insurance benefits and losses, incl. PH dividends, net	–	–
Underwriting and policy acquisition costs, net	–	–
Administrative and other operating expense (excl. depreciation/amortization)	27	8
Other expenses (excl. items not included in BOP)	–	–
Depreciation, amortization and impairments of property, equipment and intangible assets	–	–
Interest expense on debt	24	40
Business operating profit before non-controlling interests	(32)	(28)
Non-controlling interests	–	(2)
Business operating profit	**(32)**	**(25)**

Holding & Financing		Headquarters		Eliminations		Total	
2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
134	168	8	8	–	–	142	176
83	108	8	8	–	–	90	116
456	546	5	10	(8)	(38)	461	528
–	75	–	–	–	–	–	75
103	(86)	1,070	1,185	(82)	(66)	1,101	1,044
642	643	1,082	1,203	(89)	(104)	1,653	1,763
81	171	5	4	–	–	86	175
12	14	–	–	–	–	12	14
(129)	(108)	1,145	1,232	(82)	(66)	962	1,067
82	108	–	–	–	–	82	108
–	–	72	50	–	–	73	51
1,032	1,113	1	7	(8)	(38)	1,049	1,122
(438)	(656)	(141)	(90)	–	–	(611)	(774)
–	–	–	–	–	–	–	(2)
(438)	**(656)**	**(141)**	**(90)**	**–**	**–**	**(611)**	**(772)**

Non-Core Businesses – Overview

Table 30.10

in USD millions, for the years ended December 31	Total	
	2009	2008
Gross written premiums and policy fees	700	652
Net earned premiums and policy fees	666	638
Insurance benefits and losses, net	1,055	1,344
Policyholder dividends and participation in profits, net	826	(2,588)
Total net technical expenses	(33)	96
Net underwriting result	(1,182)	1,786
Net investment income	316	938
Net capital gains/(losses) and impairments on investments	795	(3,162)
Net non-technical result (excl. items not included in BOP)	(219)	15
Business operating profit before non-controlling interests	**(290)**	**(423)**
Non-controlling interests	1	–
Business operating profit	**(290)**	**(423)**

Report of the Statutory Auditor

To the General Meeting of Zurich Financial Services Ltd

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Zurich Financial Services Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity, and notes (pages 133 to 256 and 92 to 128), for the year ended December 31, 2009.

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, 2009 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

Patrick Shouvlin	Ray Kunz
Audit expert	Audit expert
Auditor in charge	

Zurich, February 3, 2010

Significant Subsidiaries

Significant subsidiaries

as of December 31, 2009	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
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance	99.98	99.98	EUR	12.0
Bermuda						
Centre Group Holdings Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
ZCM Holdings (Bermuda) Limited	Hamilton	Non-Core Businesses	100	100	USD	137.0
ZG Investments Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
ZG Investments II Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
ZG Investments III Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
ZG Investments IV Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
Zurich Finance (Bermuda) Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
Zurich International (Bermuda) Ltd.	Hamilton	Non-Core Businesses	100	100	USD	9.9
Brazil						
Companhia de Seguros Minas Brasil	Belo Horizonte	General Insurance	100	100	BRL	60.0
Zurich Participações e Representações Ltda.	Sao Paulo	Other Operating Businesses	100	100	BRL	446.0
Zurichpar Participações Ltda.	Sao Paulo	Other Operating Businesses	100	100	BRL	447.5
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.95	98.95	CLP	24,484.0
Cyprus						
Zurich Insurance Holding (Cyprus) Ltd[2]	Nicosia	General Insurance	100	100	RUB	2.0
Germany						
DA Deutsche Allgemeine Versicherung Aktiengesellschaft	Oberursel	General Insurance	100	100	EUR	24.5
Deutscher Herold Aktiengesellschaft[3]	Bonn	Global Life	79.33	79.33	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt/Main	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	86.03	86.03	EUR	68.5
Zurich Versicherung Aktiengesellschaft (Deutschland)	Frankfurt/Main	General Insurance	95.50	95.50	EUR	142.2

[1] The segments are defined in the notes to the Consolidated Financial Statements, note 30, Segment information.
[2] Zurich Insurance Holding (Cyprus) Ltd holds 99.9% of Zurich Insurance Company Ltd. in Russia which is a fully owned subsidiary of the Group.
[3] In addition buy out options exist which allow the minority shareholders to sell another 15.67 percent of the shares of Deutscher Herold Aktiengesellschaft to the Group.

Significant subsidiaries (continued)

as of December 31, 2009	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
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 Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	4.9
Italy						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	74.0
Zurich Life and Pensions S.p.A.	Milan	Global Life	100	100	EUR	40.5
Zurich Life Insurance Italia S.p.A.	Milan	Global Life	100	100	EUR	25.9
Luxembourg						
Zurich Eurolife S.A.	Howald	Global Life	100	100	EUR	5.0
Zurich Finance (Luxembourg) S.A.	Howald	Other Operating Businesses	100	100	EUR	0.1
Zurich Group Funding Luxembourg S.A.	Howald	Other Operating Businesses	100	100	EUR	0.03
Portugal						
Zurich – Companhia de Seguros S.A.[4]	Lisbon	General Insurance	100	100	EUR	10.0
South Africa						
Zurich Insurance Company South Africa Limited[5]	Johannesburg	General Insurance	73.61	73.61	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
CaixaSabadell Vida, S.A. Companyia d´Assegurances i Reassegurances	Sabadell	Global Life	50	50	EUR	39.1
CAN Seguros Generales SA	Pamplona	General Insurance	50	50	EUR	9.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Global Life	100	100	EUR	50.4
"Zurich España, Compañía de Seguros y Reaseguros, S.A."[6]	Barcelona	General Insurance	100	100	EUR	33.6

[4] Zurich – Companhia de Seguros S.A. (a public limited liability company incorporated and existing under the laws of Portugal) merged into Zurich Insurance plc (a public limited liability company incorporated in Ireland) with effect from 1 January 2010.
[5] Listed on the Johannesburg Stock Exchange. On December 31, 2009, the company had a market capitalization of ZAR 2.2 billion (ISIN Number 000094496).
[6] "Zurich España, Compañia de Seguros y Reaseguros, S.A" (a public limited liability company incorporated and existing under the laws of Spain) merged into Zurich Insurance plc (a public limited liability company incorporated in Ireland) by way of transfer en bloc with effect from 1 January 2010.

Significant subsidiaries (continued)

as of December 31, 2009	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	17.0
Zurich Insurance Company Ltd	Zurich	Other Operating Businesses	100	100	CHF	825.0
Zurich Life Insurance Company Ltd	Zurich	Other Operating Businesses	100	100	CHF	60.0
"Zurich" Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Turkey						
Zurich Sigorta A.S.	Fındıklı, Istanbul	General Insurance	100	100	TRY	47.3
United Kingdom						
Allied Zurich Limited	Swindon, England	Other Operating Businesses	100	100	GBP	0.1
Allied Zurich Holdings Limited	Jersey, Channel Islands	Other Operating Businesses	100	100	GBP	90.7
Eagle Star Holdings Limited	Swindon, England	Other Operating Businesses	100	100	GBP	0.05
Eagle Star Insurance Company Limited	Fareham, England	Non-Core Businesses	100	100	GBP	40.0
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 (UK) Limited	Fareham, England	General Insurance	100	100	GBP	40.0
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
United States of America						
Farmers Group, Inc.	Reno, NV	Farmers	98.28	100	USD	0.001
Farmers New World Life Insurance Company	Mercer Island, WA	Global Life	98.28	100	USD	6.6
Farmers Reinsurance Company	Los Angeles, CA	Farmers	98.28	100	USD	5.0
Farmers Services LLC[7]	Wilmington, DE	Farmers	100	100	USD	–
Kemper Corporation	Schaumburg, IL	Non-Core Businesses	100	100	USD	220.0
Kemper Investors Life Insurance Company	Bellevue, WA	Non-Core Businesses	100	100	USD	2.5
ZFS Finance (USA) LLC V[7]	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	0.6

[7] This entity is a LLC that has no share capital.