ZURICH®

Consolidated financial statements 2011

Zurich Financial Services Group
Annual Report 2011

Consolidated financial statements

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Consolidated income statements

in USD millions, for the years ended December 31	Notes	2011	Restated 2010
Revenues			
Gross written premiums		47,748	47,559
Policy fees		2,452	2,406
Gross written premiums and policy fees		50,200	49,965
Less premiums ceded to reinsurers		(6,550)	(5,683)
Net written premiums and policy fees		43,650	44,282
Net change in reserves for unearned premiums	11	(751)	1,234
Net earned premiums and policy fees		42,899	45,516
Farmers management fees and other related revenues	14	2,767	2,778
Net investment result on Group investments	6	9,367	7,990
Net investment income on Group investments		7,185	7,092
Net capital gains/(losses) and impairments on Group investments		2,182	898
Net investment result on unit-linked investments	6	(3,544)	10,093
Net gain/(loss) on divestments of businesses	5	6	38
Other income		1,488	1,442
Total revenues		52,983	67,857
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	11	38,106	38,591
Less ceded insurance benefits and losses	11	(5,052)	(4,106)
Insurance benefits and losses, net of reinsurance	11	33,054	34,484
Policyholder dividends and participation in profits, net of reinsurance	11	(2,685)	10,801
Underwriting and policy acquisition costs, net of reinsurance	11	8,523	8,649
Administrative and other operating expense	13	8,270	7,976
Interest expense on debt	21	586	556
Interest credited to policyholders and other interest		479	529
Total benefits, losses and expenses		48,227	62,995
Net income before income taxes		4,757	4,862
Income tax expense	20	(965)	(1,355)
attributable to policyholders	20	242	(462)
attributable to shareholders	20	(1,206)	(894)
Net income after taxes		**3,792**	3,507
attributable to non-controlling interests		25	79
attributable to shareholders		3,766	3,428
in USD			
Basic earnings per share	22	25.81	23.59
Diluted earnings per share	22	25.61	23.40
in CHF			
Basic earnings per share	22	22.79	24.53
Diluted earnings per share	22	22.62	24.33

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

Consolidated financial statements *continued*

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments
2010		
Comprehensive income for the period, as restated	3,428	2,081
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,069
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(589)
Deferred income tax (before foreign currency translation effects)		(520)
Foreign currency translation effects		121
2011		
Comprehensive income for the period	3,766	332
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		866
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(644)
Deferred income tax (before foreign currency translation effects)		113
Foreign currency translation effects		(4)

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

Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
65	(724)	28	(162)	1,288	4,716	(14)	4,702
(45)	(704)	41	(192)	2,169			
134	(20)	–	–	(475)			
(6)	–	(13)	51	(488)			
(18)	–	–	(22)	81			
176	(1,512)	54	(933)	(1,883)	1,883	(74)	1,809
207	(1,469)	73	(1,328)	(1,651)			
53	(43)	–	–	(633)			
(71)	–	(19)	352	376			
(13)	–	–	44	26			

Consolidated financial statements *continued*

Consolidated balance sheets

Assets

in USD millions, as of	Notes	12/31/11	Restated 12/31/10	Restated 01/01/10
Investments				
Total Group investments		194,385	195,898	195,658
Cash and cash equivalents		8,768	8,182	10,318
Equity securities		11,226	13,729	12,581
Debt securities		142,861	140,254	136,723
Real estate held for investment		8,468	8,274	7,789
Mortgage loans		11,058	11,851	12,736
Other loans		11,842	13,419	15,279
Investments in associates and joint ventures		161	188	232
Investments for unit-linked contracts		104,603	107,947	99,167
Total investments	6	298,988	303,845	294,825
Reinsurers' share of reserves for insurance contracts	8	19,361	18,816	18,751
Deposits made under assumed reinsurance contracts		2,711	2,837	3,870
Deferred policy acquisition costs	12	16,864	16,281	16,146
Deferred origination costs	12	824	866	856
Accrued investment income		2,589	2,749	2,744
Receivables and other assets	18	32,766	17,671	17,100
Mortgage loans given as collateral	15	223	743	1,102
Deferred tax assets	20	2,076	2,067	2,421
Assets held for sale[1]		54	–	67
Property and equipment	16	1,579	1,689	1,942
Goodwill	17	2,060	2,104	2,297
Other intangible assets	17	5,774	5,954	7,044
Total assets		**385,869**	**375,623**	**369,168**

[1] See note 5.

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

Liabilities and equity

in USD millions, as of	Notes	12/31/11	Restated 12/31/10	Restated 01/01/10
Liabilities				
Reserve for premium refunds		554	518	649
Liabilities for investment contracts	9	50,661	50,667	46,124
Deposits received under ceded reinsurance contracts		1,543	1,362	1,558
Deferred front-end fees		5,720	5,626	5,543
Reserves for insurance contracts	8	240,811	242,719	242,172
Obligations to repurchase securities		1,794	3,330	3,976
Accrued liabilities		3,110	3,011	2,839
Other liabilities	19	31,317	18,396	18,299
Collateralized loans	15	223	743	1,102
Deferred tax liabilities	20	4,049	4,554	4,412
Liabilities held for sale[1]		55	–	–
Senior debt	21	6,541	6,453	6,302
Subordinated debt	21	5,476	5,004	5,167
Total liabilities		**351,852**	**342,382**	**338,142**
Equity				
Share capital	22	10	10	10
Additional paid-in capital	22	9,907	11,630	11,400
Net unrealized gains/(losses) on available-for-sale investments		2,800	2,468	387
Cash flow hedges		232	56	(9)
Cumulative foreign currency translation adjustment		(2,632)	(1,120)	(396)
Revaluation reserve		180	126	98
Retained earnings		21,139	18,259	17,174
Common shareholders' equity		31,636	31,429	28,665
Preferred securities	22	–	475	561
Shareholders' equity		31,636	31,905	29,226
Non-controlling interests		2,380	1,336	1,799
Total equity		**34,017**	**33,241**	**31,025**
Total liabilities and equity		**385,869**	**375,623**	**369,168**

[1] See note 5.

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

Consolidated financial statements *continued*

Consolidated statements of cash flows

in USD millions, for the years ended December 31	**2011**	Restated 2010
Cash flows from operating activities		
Net income attributable to shareholders	3,766	3,428
Adjustments for:		
Net (gain)/loss on divestments of businesses	(6)	(38)
Income from equity method accounted investments	(12)	(17)
Depreciation, amortization and impairments of fixed and intangible assets	996	1,086
Other non-cash items	123	789
Underwriting activities:	(2,245)	13,006
Reserves for insurance contracts, gross	*(1,189)*	5,781
Reinsurers' share of reserves for insurance contracts	*(728)*	(18)
Liabilities for investment contracts	*167*	7,058
Deferred policy acquisition costs	*(860)*	(611)
Deferred origination costs	*34*	(23)
Deposits made under assumed reinsurance contracts	*133*	1,032
Deposits received under ceded reinsurance contracts	*199*	(214)
Investments:	3,050	(16,845)
Net capital (gains)/losses on total investments and impairments	*3,119*	(9,430)
Net change in trading securities and derivatives	*(13)*	7
Net change in money market investments	*1,645*	411
Sales and maturities		
Debt securities	*109,078*	96,192
Equity securities	*52,149*	57,853
Other	*80,788*	47,233
Purchases		
Debt securities	*(108,346)*	(104,679)
Equity securities	*(54,555)*	(56,960)
Other	*(80,815)*	(47,472)
Proceeds from sale and repurchase agreements	(1,572)	(502)
Movements in receivables and payables	494	1,379
Net changes in other operational assets and liabilities	(573)	(999)
Deferred income tax, net	(133)	258
Net cash provided by/(used in) operating activities	3,888	1,543

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

in USD millions, for the years ended December 31	2011	Restated 2010
Cash flows from investing activities		
Sales of property and equipment	49	117
Purchases of property and equipment	(199)	(182)
Disposal of equity method accounted investments, net	42	2
Acquisitions of companies, net of cash acquired	(1,090)	(48)
Divestments of companies, net of cash balances	20	(27)
Dividends from equity method accounted investments	3	3
Net cash used in investing activities	(1,176)	(135)
Cash flows from financing activities		
Dividends paid	(2,835)	(2,220)
Issuance of share capital	83	95
Net movement in treasury shares and preferred securities	7	(61)
Redemption of preferred securities and repayments to non-controlling interests	(476)	–
Issuance of debt	2,645	1,120
Repayments of debt outstanding	(1,863)	(982)
Net cash provided by/(used in) financing activities	(2,439)	(2,049)
Foreign currency translation effects on cash and cash equivalents	48	(383)
Change in cash and cash equivalents excluding change in cash held as collateral for securities lending	322	(1,023)
Cash and cash equivalents as of January 1, excluding cash held as collateral for securities lending	9,726	10,749
Cash and cash equivalents as of December 31, excluding cash held as collateral for securities lending	**10,048**	**9,726**
Change in cash held as collateral for securities lending	–	(493)
Cash and cash equivalents as of January 1, including cash held as collateral for securities lending	9,726	11,242
Cash and cash equivalents as of December 31, including cash held as collateral for securities lending	**10,048**	**9,726**
of which:		
– cash and cash equivalents – Group investments	8,768	8,182
– cash and cash equivalents – unit linked	1,280	1,544
Other supplementary cash flow disclosures		
Other interest income received	7,270	6,868
Dividend income received	1,778	1,667
Other interest expense paid	(1,106)	(1,182)
Income tax (paid)	(1,229)	(1,363)

As of December 31, 2011 and 2010, cash and cash equivalents held to meet local regulatory requirements were USD 1,600 million and USD 923 million, respectively.

Cash and cash equivalents

in USD millions, as of December 31	2011	Restated 2010
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,297	5,956
Cash equivalents	4,751	3,770
Total	**10,048**	**9,726**

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

Consolidated financial statements *continued*

Consolidated statements of changes in equity

in USD millions	Share capital	Additional paid-in capital	Net unrealized gains/(losses) on available-for-sale investments
Balance as of December 31, 2009, as previously reported	10	11,400	387
Total adjustments due to restatement	–	–	–
Balance as of December 31, 2009, as restated	10	11,400	387
Issuance of share capital[1]	–	205	–
Dividends to shareholders	–	–	–
Share-based payment transactions	–	28	–
Treasury share transactions[4]	–	(3)	–
Change of ownership with no loss of control	–	–	–
Total comprehensive income for the period, net of tax	–	–	2,081
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*2,081*
Cash flow hedges	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of December 31, 2010	10	11,630	2,468
Balance as of December 31, 2010, as previously reported	10	11,630	2,468
Total adjustments due to restatement	–	–	–
Balance as of December 31, 2010, as restated	10	11,630	2,468
Issuance of share capital[1]	–	211	–
Dividends to shareholders[2]	–	(1,912)	–
Redemption of preferred securities[3]	–	(15)	–
Share-based payment transactions	–	22	–
Treasury share transactions[4]	–	(30)	–
Total comprehensive income for the period, net of tax	–	–	332
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*332*
Cash flow hedges	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of December 31, 2011	**10**	**9,907**	**2,800**

[1] The number of common shares issued as of December 31, 2011 was 147,385,822 (December 31, 2010: 146,586,896, December 31, 2009: 147,473,068).
[2] As approved by the Annual General Meeting on March 31, 2011, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 795 million between the dividend at transaction day exchange rates amounting to USD 2,706 million and the dividend at historical exchange rates amounting to USD 1,912 million is reflected in the cumulative foreign currency translation adjustment.
[3] Zurich RegCaPS Funding Trusts II, V and VI redeemed USD 575 million of Trust Capital Securities II, V and VI on March 30, 2011 (Series II), on April 4, 2011 (Series V) and on April 25, 2011 (Series VI) respectively.
[4] The number of treasury shares deducted from equity as of December 31, 2011 amounted to 1,373,392 (December 31, 2010: 1,399,080, December 31, 2009: 3,269,338).

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

Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Common shareholders' equity	Preferred securities	Shareholders' equity	Non-controlling interests	Total equity
(9)	(396)	98	17,253	28,743	561	29,304	1,800	31,104
–	–	–	(79)	(79)	–	(79)	(1)	(79)
(9)	(396)	98	17,174	28,665	561	29,226	1,799	31,025
–	–	–	–	205	–	205	–	205
–	–	–	(2,202)	(2,202)	(11)	(2,213)	(7)	(2,220)
–	–	–	–	28	–	28	–	28
–	–	–	28	25	(86)	(61)	–	(61)
–	–	–	4	4	–	4	–	4
65	(724)	28	3,255	4,704	11	4,716	(13)	4,703
–	*–*	*–*	*3,416*	*3,416*	*11*	*3,428*		
–	*–*	*–*	*–*	*2,081*	*–*	*2,081*		
65	*–*	*–*	*–*	*65*	*–*	*65*		
–	*(724)*	*–*	*–*	*(724)*	*–*	*(724)*		
–	*–*	*28*	*–*	*28*	*–*	*28*		
–	*–*	*–*	*(162)*	*(162)*	*–*	*(162)*		
–	–	–	–	–	–	–	(443)	(443)
56	(1,120)	126	18,259	31,429	475	31,905	1,336	33,241
56	(1,125)	126	18,344	31,509	475	31,984	1,337	33,321
–	5	–	(85)	(79)	–	(79)	(1)	(80)
56	(1,120)	126	18,259	31,429	475	31,905	1,336	33,241
–	–	–	–	211	–	211	–	211
–	–	–	–	(1,912)	(4)	(1,916)	(22)	(1,938)
–	–	–	–	(15)	(462)	(476)	–	(476)
–	–	–	–	22	–	22	–	22
–	–	–	50	21	(14)	7	–	7
176	(1,512)	54	2,830	1,880	4	1,883	(74)	1,809
–	*–*	*–*	*3,763*	*3,763*	*4*	*3,766*		
–	*–*	*–*	*–*	*332*	*–*	*332*		
176	*–*	*–*	*–*	*176*	*–*	*176*		
–	*(1,512)*	*–*	*–*	*(1,512)*	*–*	*(1,512)*		
–	*–*	*54*	*–*	*54*	*–*	*54*		
–	*–*	*–*	*(933)*	*(933)*	*–*	*(933)*		
–	–	–	–	–	–	–	1,141	1,141
232	**(2,632)**	**180**	**21,139**	**31,636**	**–**	**31,636**	**2,380**	**34,017**

Consolidated financial statements *continued*

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

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

On February 15, 2012 the Board of Directors of Zurich Financial Services Ltd authorized these Consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on March 29, 2012.

1. Basis of presentation

General information

The Consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. Where IFRS does not contain clear guidance governing the accounting treatment of certain transactions including those that are specific to insurance and reinsurance products, IFRS permits reference to another comprehensive body of accounting principles that uses a similar conceptual framework. The Group's accounting policies for insurance and reinsurance contracts are therefore based on those developed by the Group before the adoption of IFRS 4 in areas where IFRS 4 did not include specific requirements. Before the time of adoption, the Group typically considered U.S. GAAP pronouncements issued by the Financial Accounting Standards Board (FASB) on insurance and reinsurance contracts. Any subsequent changes to such pronouncements are not reflected in the Group's accounting policies. In case of business combinations, the Group may decide to maintain the local statutory treatment if this does not distort a fair presentation of the financial position of the Group. If significant, the impact of such cases is described elsewhere in the notes to these Consolidated financial statements.

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

Disclosures under IFRS 4 "Insurance Contracts" and IFRS 7 "Financial Instruments: Disclosures" relating to the nature and extent of risks, and capital disclosures under IAS 1 "Presentation of Financial Statements" have been included in the Risk Review on pages 104 to 149, and they form an integral part of the Consolidated financial statements.

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

In the Group's General Insurance business in Germany, prior year results were misstated for a period of time due to some errors in adjustments between local GAAP and IFRS. This resulted in incorrect reserves for losses, unearned premium reserves and deferred acquisition costs for some specific products. The errors identified by management, have resulted in a restatement of equity of USD 80 million and USD 79 million as of December 31, 2010 and January 1, 2010 respectively. For the year ended December 31, 2010 the impact on net income after taxes was a loss of USD 6 million and on business operating profit a loss of USD 5 million. The impact on various line items as of December 31, 2010 in the consolidated balance sheet and the consolidated income statement are set out in the restatement tables. Consolidated income statements, consolidated balance sheets, consolidated statements of cash flows, consolidated statements of changes in equity and notes 8, 11, 12, 20, 22 and 29 have been restated accordingly.

In addition, there have been further restatements on the balance sheet and reclassifications as previously disclosed:

- Certain balances erroneously reported as cash and cash equivalents amounting to USD 376 million and USD 723 million as of December 31, 2010, and January 1, 2010, respectively, are now presented as other loans. In addition, certain balances erroneously reported as unit-linked cash and cash equivalents amounting to USD 5,619 million and USD 4,917 million as of December 31, 2010, and January 1, 2010, respectively, are now presented under unit-linked other loans. These changes, as well as a change in presentation of certain debt during 2011 result in a decrease of net cash provided by operating activities of USD 766 million, a decrease in net cash used in financing activities of USD 411 million and a decrease of cash and cash equivalents by USD 5,995 million as of December 31, 2010 as presented in the cash flow statement. These changes in presentation are reflected in the consolidated balance sheets, consolidated income statements, consolidated statements of cash flows and note 6.

- The Group erroneously classified certain life insurance products. The classification was corrected in 2011 as the impact on the Group's consolidated income statement was not material. The reclassifications in the balance sheet from other liabilities to future life policyholders' benefits and liabilities for investment contracts as well as from future life policyholders' benefits to liabilities for investment contracts, from liabilities for investment contracts to reserves for unit-linked contracts and from reserves for unit-linked contracts to liabilities for investment contracts are set out in notes 8 and 9.

- Some assets related to non-risk transfer reinsurance deposits reported under receivables and other assets amounting to USD 4 million as of December 31, 2010, are now presented under deposits made under assumed reinsurance contracts in order to ensure consistency with the treatment of other related items.

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

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

The following balances are mixed in nature (including both current and non-current portions): debt securities, mortgage loans, other loans, reinsurers' share of reserves for insurance contracts, deposits made under assumed reinsurance contracts, deferred origination costs, other assets, mortgage loans given as collateral, reserves and investments for unit-linked contracts, liabilities for investment contracts, deposits received under ceded reinsurance contracts, deferred front-end fees, reserves for losses and loss adjustment expenses, reserves for unearned premiums, future life policyholders' benefits, policyholders' contract deposits and other funds, other liabilities, collateralized loans, senior and subordinated debt, and assets and liabilities held for sale.

Maturity tables have been provided for the following balances: reserves for insurance contracts (tables 17a and 17b in the Risk Review), liabilities for investment contracts (tables 18a and 18b in the Risk Review), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), collateralized loans (table 15), other financial liabilities (table 19.2) and outstanding debt (table 21.3).

Changes to operating segments are shown in note 29.

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

Consolidated financial statements *continued*

The table below summarizes the principal exchange rates that have been used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 112 million and USD 134 million for the years ended December 31, 2011 and 2010, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 130 million and USD (141) million for the years ended December 31, 2011 and 2010, respectively.

Principal exchange rates

Table 1

USD per foreign currency unit	Balance sheets		Income statements and cash flows	
	12/31/2011	12/31/2010	**2011**	2010
Euro	1.2969	1.3391	1.3927	1.3272
Swiss franc	1.0666	1.0707	1.1326	0.9617
British pound	1.5533	1.5596	1.6039	1.5459

Restatement of the consolidated income statement

Table 1.2

in USD millions, for the year ended December 31, 2010	As reported	Restatement	As restated
Revenues			
Gross written premiums	47,559	–	47,559
Policy fees	2,406	–	2,406
Gross written premiums and policy fees	49,965	–	49,965
Less premiums ceded to reinsurers	(5,683)	–	(5,683)
Net written premiums and policy fees	44,282	–	44,282
Net change in reserves for unearned premiums	1,227	7	1,234
Net earned premiums and policy fees	45,509	7	45,516
Farmers management fees and other related revenues	2,778	–	2,778
Net investment result on Group investments	7,990	–	7,990
Net investment income on Group investments	7,092	–	7,092
Net capital gains/(losses) and impairments on Group investments	898	–	898
Net investment result on unit-linked investments	10,093	–	10,093
Net gain/(loss) on divestments of businesses	38	–	38
Other income	1,442	–	1,442
Total revenues	67,850	7	67,857
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	38,591	–	38,591
Less ceded insurance benefits and losses	(4,106)	–	(4,106)
Insurance benefits and losses, net of reinsurance	34,484	–	34,484
Policyholder dividends and participation in profits, net of reinsurance	10,801	–	10,801
Underwriting and policy acquisition costs, net of reinsurance	8,636	13	8,649
Administrative and other operating expense	7,976	–	7,976
Interest expense on debt	556	–	556
Interest credited to policyholders and other interest	529	–	529
Total benefits, losses and expenses	62,982	13	62,995
Net income before income taxes	4,868	(6)	4,862
Income tax expense	(1,355)	–	(1,355)
attributable to policyholders	(462)	–	(462)
attributable to shareholders	(893)	–	(894)
Net income after taxes	**3,513**	**(6)**	**3,507**
attributable to non-controlling interests	79	–	79
attributable to shareholders	3,434	(6)	3,428
in USD			
Basic earnings per share	23.63	(0.04)	23.59
Diluted earnings per share	23.44	(0.04)	23.40
in CHF			
Basic earnings per share	24.57	(0.04)	24.53
Diluted earnings per share	24.38	(0.05)	24.33

Consolidated financial statements *continued*

Restatement and reclassifications of the consolidated balance sheet

Table 1.3

in USD millions, as of December 31, 2010	As reported	Reclassifcations	Restatement	As revised
Investments				
Total Group investments	195,898	–	–	195,898
Cash and cash equivalents	8,558	–	(376)	8,182
Equity securities	13,729	–	–	13,729
Debt securities	140,254	–	–	140,254
Real estate held for investment	8,274	–	–	8,274
Mortgage loans	11,851	–	–	11,851
Other loans	13,043	–	376	13,419
Investments in associates and joint ventures	188	–	–	188
Investments for unit-linked contracts	107,947	–	–	107,947
Total investments	303,845	–	–	303,845
Reinsurers' share of reserves for insurance contracts	18,809	–	7	18,816
Deposits made under assumed reinsurance contracts	2,832	4	–	2,837
Deferred policy acquisition costs	16,326	–	(45)	16,281
Deferred origination costs	866	–	–	866
Accrued investment income	2,749	–	–	2,749
Receivables and other assets	17,676	(4)	–	17,671
Mortgage loans given as collateral	743	–	–	743
Deferred tax assets	2,067	–	–	2,067
Property and equipment	1,689	–	–	1,689
Goodwill	2,104	–	–	2,104
Other intangible assets	5,954	–	–	5,954
Total assets	**375,661**	**–**	**(38)**	**375,623**
Liabilities				
Reserve for premium refunds	518	–	–	518
Liabilities for investment contracts	50,667	–	–	50,667
Deposits received under ceded reinsurance contracts	1,362	–	–	1,362
Deferred front-end fees	5,626	–	–	5,626
Reserves for insurance contracts	242,646	–	72	242,719
Obligations to repurchase securities	3,330	–	–	3,330
Accrued liabilities	3,011	–	–	3,011
Other liabilities	18,396	–	–	18,396
Collateralized loans	743	–	–	743
Deferred tax liabilities	4,585	–	(31)	4,554
Senior debt	6,453	–	–	6,453
Subordinated debt	5,004	–	–	5,004
Total liabilities	**342,340**	**–**	**42**	**342,382**
Equity				
Shareholders' equity	31,984	–	(79)	31,905
Non-controlling interests	1,337	–	(1)	1,336
Total equity	**33,321**	**–**	**(80)**	**33,241**
Total liabilities and equity	**375,661**	**–**	**(38)**	**375,623**

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early adopted as of January 1, 2011 and relevant for the Group's operations

The following amendments to accounting standards and interpretations of standards relevant to the Group have been implemented for the financial year beginning January 1, 2011 with no material impact on the Group's financial position or performance.

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

In November 2009, amendments to International Financial Reporting Interpretations Committee (IFRIC) 14 "Prepayments of a minimum funding requirement" were issued. The amendments to IFRIC 14, which itself is an interpretation of IAS 19 "Employee Benefits" is effective for annual reporting periods beginning on or after January 1, 2011. In the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements, IFRIC 14 permits the entity to treat the benefit of such an early payment as an asset.

Standards, amendments and interpretations issued that are not yet effective nor yet adopted by the Group

The following standards, amendments and interpretations of existing published standards are not yet effective but are relevant to the Group's operations. The Group is currently evaluating the impact of adopting these standards, amendments and interpretations, but is not expecting a significant impact, unless otherwise stated.

In November 2009, as part of the phased project to replace IAS 39 "Financial Instruments: Recognition and Measurement", the IASB issued IFRS 9 "Financial Instruments" which reconsiders the classification and measurement of financial assets. Under the new requirements, the classification of financial assets is based on how the reporting entity manages these assets (business model) and on the contractual cash flow characteristics of the specific financial assets. The measurement of financial assets will be either amortized cost or fair value through profit or loss, whereby for equity instruments an irrevocable election can be made on an instrument-by-instrument basis to record fair value through other comprehensive income (OCI). In October 2010, the IASB completed a subsequent phase of IFRS 9 "Financial Instruments" by carrying forward unchanged most of the requirements in IAS 39 regarding the classification and measurement of financial liabilities. The requirements related to the fair value option for financial liabilities were amended insofar as the effects of changes in a liability's credit risk will be recorded in OCI rather than through the income statement, unless this presentation creates an accounting mismatch. Also, the IASB has carried forward to IFRS 9 the existing IAS 39 requirements related to the derecognition of financial assets and financial liabilities. In December 2011 the IASB issued an amendment to IFRS 9 that defers its mandatory effective date from January 1, 2013 to January 1, 2015, with earlier adoption permitted. The amendment also provides relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9 and requires additional transition disclosures to describe the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The Group plans to assess the impact of this standard on its financial statements in conjunction with the revised standard IFRS 4 "Insurance Contracts". Changes to the IFRS timetable may have an impact on this approach.

In June 2010, the IASB issued amendments to IAS 1 "Financial Statement Presentation". The amendments address the presentation of components of other comprehensive income (OCI) and will be effective for annual reporting periods beginning on or after July 1, 2012.

In October 2010, the IASB amended IFRS 7 "Financial Instruments: Disclosures" to include additional disclosure requirements regarding transfers of assets (for example, securities sold under repurchase agreements or securities lending transactions) with the aim of increasing the transparency of the risk exposures relating to such transferred assets. The accounting treatment for such transferred assets is unchanged. The amendment will be effective for annual reporting periods beginning on or after July 1, 2011.

Consolidated financial statements *continued*

In May 2011, IFRS 13 "Fair Value Measurement" was issued by the IASB. IFRS 13 provides guidance on the measurement of fair value and requires disclosures about fair value measurements to increase the transparency. It does not require any new measurements of assets or liabilities at fair value, any changes in what is measured or how to present changes in fair value. IFRS 13 applies when other standards require or permit fair value measurements and will be effective for annual reporting periods beginning on or after January 1, 2013, with earlier adoption permitted.

In May 2011, the IASB issued IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities". IFRS 10 builds on existing principles by identifying control as the determining factor for consolidation for all types of entities. IFRS 11 "Joint Arrangements" provides principles for the financial reporting of joint arrangements. The standard addresses inconsistencies by requiring a single method to be applied by the Group for all its interests in jointly controlled entities. IFRS 12 provides a comprehensive standard on disclosure requirements for all forms of interests in other entitles (incl. joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles). The new standards are effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Group expects that the adoption of IFRS 10 may result in additional consolidation of certain structured entities that are currently accounted for as associates.

In June 2011, the IASB issued amendments to IAS 19 "Employee Benefits". The amendments primarily comprise clarification of the recognition, presentation and disclosure requirements for defined benefit plans. The amendments will be effective for annual reporting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Group expects that the adoption of the amendments will result in an increase of pension expense as the income from plan assets will be calculated using a high quality corporate bond rate rather than an expected return on assets rate.

In December 2011, the IASB issued amendment to IAS 32 "Financial Instruments: Presentation". The amendments address inconsistencies by clarifying the requirements for offsetting financial instruments. The amendments will be effective for annual periods beginning on or after January 1, 2014.

In December 2011, the IASB issued amendments to IFRS 7 "Financial Instruments: Disclosures" introducing disclosure requirements that are intended to better assess the potential effect of offsetting arrangements. The amendments apply for annual periods beginning on or after January 2013, and interim periods within those annual periods.

3. Summary of significant accounting policies

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

a) Consolidation principles

The Group's Consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Financial Services Ltd and its subsidiaries. A subsidiary is an entity in which Zurich Financial Services Ltd owns, directly or indirectly, more than 50 percent of the outstanding voting rights, or which it otherwise has the power to control. The results of subsidiaries acquired are included in the Consolidated financial statements from the date of acquisition. The results of subsidiaries that have been divested during the year are included up to the date control ceased. All significant intercompany balances, profits and transactions are eliminated in full.

Acquisition transactions with non-controlling interests are accounted for as transactions with parties external to the Group. The effect of transactions with non-controlling interests are recorded in equity if there is no change in control.

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

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

b) Foreign currency translation and transactions

Foreign currency translation

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

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rate at the date of the transaction or, for practical reasons, a weighted average rate, if exchange rates do not fluctuate significantly. Foreign currency monetary items and foreign currency non-monetary items, which are carried at fair value, are translated at end-of-period exchange rates. Foreign currency non-monetary items which are carried at historical cost are translated at historical exchange rates. The resulting foreign currency differences are recorded in income, except for the following:

- when gains or losses on non-monetary items measured at fair value, such as available-for-sale equity securities, are recognized directly in OCI, any foreign currency component included in the gains or losses is also recognized directly in OCI;

- when changes in the fair value of monetary items denominated in foreign currency, such as debt securities, that are classified as available-for-sale, are analyzed between foreign currency translation differences resulting from changes in the amortized cost of the security and other fair value changes in the security. Foreign currency translation differences related to changes in amortized cost are recognized in income, and those related to other changes in fair value are recognized in OCI; and

- foreign currency translation differences arising on monetary items that form part of net investments in foreign operations are included directly in OCI as cumulative foreign currency translation adjustment.

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

Classification

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

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

- that are likely to be a significant portion of the total contractual benefits;

- the amount or timing of which is contractually at the discretion of the Group; and

- that are contractually based on:

  - the performance of a specified pool of contracts or a specified type of contract;

  - realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or

  - the net income of the company, fund or other entity that issues the contract.

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

The Group also issues products containing an embedded option that entitle the policyholder to switch all or part of the current and future invested funds into another product issued by the Group. Where this results in the reclassification of

Consolidated financial statements *continued*

an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are also reclassified and are accounted for in accordance with the accounting policy to be applied to the new product on a prospective basis. As a consequence, no gain or loss is recognized as a result of the reclassification of a contract from investment to insurance.

Once a contract has been classified as an insurance contract, no reclassification can be made subsequently.

Premiums

General insurance

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

Life insurance

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

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

Cash flows from certain universal life-type contracts in the Group’s Spanish operations are recognized as gross written premiums and insurance benefits and losses and not as deposits.

Reserves for losses and loss adjustment expenses

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

Reserves for life benefits

Future life policyholders’ benefits represent the estimated future benefit liability for traditional life insurance policies.

The reserves for life benefits for participating traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions taking into account guaranteed mortality and interest rates.

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

For traditional life insurance policies, interest rate assumptions can vary by country, year of issuance and product. The mortality rate assumptions are based on published mortality tables and are adjusted for actual experience by geographic area and modified to allow for variations in policy terms. The surrender assumptions are based on actual experience by geographic area and modified to allow for variations in policy terms. Future life policyholders’ benefits include the value of accumulated declared bonuses or dividends that have vested to policyholders.

Policyholders' contract deposits represent the estimated policy benefits for investment type insurance contracts invested in non unit-linked funds. This liability comprises the accumulation of premium received less charges plus declared policyholder dividends.

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

Reserves for unit-linked contracts are based on the fair value of the financial instruments backing those contracts less any fees and assessments charged to the policyholders.

For products containing guarantees in respect of minimum death benefits (GMDB), retirement income benefits (GRIB) and/or annuitization options (GAO), additional liabilities are recorded in proportion to the receipt of the contracted revenues coupled with a loss adequacy test taking into account policyholder behavior and current market conditions.

For products managed on a dynamic basis, an option in IFRS 4 is used to measure the insurance liabilities using current financial and non-financial assumptions, to better reflect the way these products are managed. Financial assets relating to these liabilities are designated as "fair value through profit or loss".

Discretionary participation features (DPF)

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

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

Deferred acquisition costs (DAC)

Costs that vary with and are directly related to the acquisition of new and renewal business, including for example commissions and certain underwriting and policy issue expenses, are deferred and subsequently amortized over a defined period. Certain direct response marketing costs for efforts which solicit a direct response that is specific and quantifiable are also deferred, when it can be demonstrated that such marketing results in future economic benefits.

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

General insurance

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

Life insurance

DAC for traditional participating life insurance contracts is amortized over the life of the contracts based on estimated gross margins expected to be realized over the life of the contract. Estimated gross margins are updated for actual and anticipated future experience using the latest revised interest rate for the remaining benefit period. Resultant deviations are reflected in income.

DAC for other traditional life insurance and annuity contracts is amortized over the life of the contracts based on expected premiums. Expected premiums are estimated at the date of policy issue for application throughout the life of the contract, unless a premium deficiency subsequently occurs.

DAC for investment type insurance contracts such as universal life, unit-linked and unitized with-profits contracts is amortized over the life of the contracts based on estimated gross profits expected to be realized over the life of the contract. Estimated gross profits are updated for actual and anticipated future experience using either the rate in effect at the inception of the contracts or the latest revised interest rate for the remaining benefit period, depending on whether crediting is based on the policyholder's or on the reporting entity's investment performance. Resultant deviations are reflected in income.

Consolidated financial statements *continued*

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

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

Liability adequacy tests

Liability adequacy testing is performed annually for groupings of contracts determined in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

General insurance

For general insurance contracts, unearned premiums are tested to determine whether they are sufficient to cover related expected losses, loss adjustment expenses, policyholder dividends, unamortized DAC and maintenance expenses using current assumptions and considering anticipated investment returns. If a premium deficiency is identified, the DAC asset for the respective grouping of contracts is written down by the amount of the deficiency. If, after writing down the DAC asset to nil, a premium deficiency still exists for the respective grouping of contracts, then a premium deficiency reserve is established for the amount of the remaining deficiency.

Life insurance

For life insurance contracts, the carrying amount of the existing reserve for life benefits, including any deferred front-end fees, reduced by the unamortized balance of DAC or present value of future profits of acquired insurance contracts (PVFP), is compared with the reserve for life benefits, calculated using revised assumptions for actual and anticipated experience as of the valuation date. If a deficiency is identified, the DAC or PVFP for the respective grouping of contracts is written down by the amount of the deficiency. If, after writing down the DAC or PVFP to nil, a deficiency still exists for the respective grouping of contracts, the reserve for life benefits is increased by the amount of the remaining deficiency.

Reinsurance

The Group's insurance subsidiaries cede risk in the normal course of business in order to limit the potential for losses arising from certain exposures. Reinsurance does not relieve the originating insurer of its liability. Certain Group insurance companies assume reinsurance business incidental to their normal business.

Reinsurance contracts that do not transfer significant insurance risk are accounted for using the deposit method. A deposit asset or liability is recognized based on the premium paid or received less any explicitly identified premiums or fees to be retained by the ceding company. Interest on deposits is accounted for using the effective interest rate method. Future cash flows are estimated to calculate the effective yield and revenue and expense are recorded as interest income or expense. Reinsurance deposit assets or liabilities also include funds deposited or held by the Group, respectively under assumed or ceded reinsurance contracts, when funds are retained by the reinsured under the terms of the contract.

Reinsurance assets include balances expected to be recovered from reinsurance companies for ceded paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the liability associated with the reinsured policy. Reinsurance is recorded gross in the consolidated balance sheet.

Reinsurance assets are assessed for impairment on a regular basis for any events that may trigger impairment. Triggering events may include legal disputes with counterparties, changes in capital and surplus levels or changes in credit ratings of a reinsurer, and historical experience regarding collectibility from specific reinsurers. Impairment is considered to have occurred if it is probable that the Group will not be able to collect the amounts expected from reinsurers. If a reinsurance asset is impaired, the carrying amount of the asset is reduced to its recoverable amount, through the use of an allowance account, and the amount of the impairment loss is recognized in income. If a decrease in the impairment loss can be related objectively to an event occurring after the impairment loss was initially recognized, the impairment loss is reversed through income.

Premiums paid under retroactive contracts are included in reinsurance recoverables in the balance sheet. If the amount of gross liabilities reinsured is higher than the premium paid, reinsurance recoverables are increased by the difference and the resulting gain is deferred and amortized over the expected settlement period. If the amount of gross liabilities reinsured is lower than the premium paid, reinsurance recoverables are reduced by the difference and the resulting loss is recognized in income immediately.

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

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

Unit-linked investment contracts
These represent portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks related to the investments. The liabilities are carried at fair value, with fair value being determined by reference to the underlying financial assets. The related assets for unit-linked investment contracts are classified as designated at fair value through profit or loss in order to reduce measurement inconsistencies. If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never recorded at less than the amount payable on surrender, discounted for the required notice period, where applicable.

Changes in the fair value of the assets and liabilities are recorded in income. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against the policyholders' account balances are included in policy fee revenue.

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

Investment contracts at amortized cost
Liabilities for investment contracts with fixed and guaranteed terms are measured at amortized cost, using the effective interest rate method. Transaction costs are included in the calculation of the effective yield. As of each reporting date, the Group re-estimates the expected future cash flows and re-calculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the original effective interest rate for the financial liability. Any adjustment is immediately recognized as income or expense.

Deferred origination costs (DOC)
The costs of acquiring new investment contracts with investment management services, such as commissions and other incremental expenses directly related to the issuance of each new contract, are capitalized and amortized in line with the revenue generated by providing investment management services. DOC is tested for recoverability annually.

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

e) Investments excluding derivative financial instruments
Investments include financial assets (excluding derivative financial instruments), cash and cash equivalents and real estate held for investment.

Categories and measurement of investments (excluding derivative financial instruments)
Financial assets are classified as available for sale, financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Management determines the classification of these investments at initial recognition, depending on the purpose for which the investments were acquired.

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

The Group recognizes regular purchases and sales of financial assets on the trade date, which is the date on which the Group commits to purchase or sell the asset.

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

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

Consolidated financial statements *continued*

The cumulative unrealized gains or losses recorded in OCI are net of cumulative deferred income taxes, certain related life policyholder liabilities and deferred acquisition costs. When available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains or losses are recycled from OCI and recognized in income.

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

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

Financial assets irrevocably designated at inception at fair value through profit or loss are mainly financial assets backing unit-linked insurance contracts, unit-linked investment contracts and certain life insurance contracts with participation features. The designation of these assets at fair value through profit or loss eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or from recognizing the resultant gains and losses on them on a different basis to the liabilities.

Financial assets at fair value through profit or loss are carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value are recognized in income within net capital gains/(losses) on investments and impairments, in the period in which they arise.

Held-to-maturity investments
Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables, and for which the Group has the positive intention and ability to hold to maturity.

Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any charges for impairment.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are not classified in any of the other categories. Loans and receivables include loans where money is provided directly to the borrower, such as mortgage loans, policyholder loans and other loans.

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

Other items
Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments that are readily convertible into cash and are subject to an insignificant risk of change in fair value, for example, short-term investments with maturities of three months or less from the date of acquisition. Cash and cash equivalents also includes cash received as collateral for securities lending. Cash and cash equivalents are stated at face value.

Real estate held for investment is initially recorded at cost (including transaction costs) and is subsequently measured at fair value with changes in fair value recognized in income. Fair value is based on active market prices, adjusted if necessary for differences in the nature, location or condition of the property. If active market prices are not available, alternative valuation methods are used, for example discounted cash flow projections. Valuations are performed annually by internal valuation specialists and generally at least once every three years by external valuers. The gain or loss on disposal of real estate held for investment is the difference between the net proceeds received and the carrying amount of the investment and is recognized in the consolidated income statement when the disposal is completed.

Impairment of financial assets (excluding derivative financial instruments)

General
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence of impairment exists if one or more loss events occurred after the initial recognition of the asset which impact the estimated future cash flows such as:

a) significant financial difficulty of the issuer or debtor;

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

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

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

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

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

Available-for-sale financial assets
When there is objective evidence that an available-for-sale debt security is impaired, the cumulative loss that had been recognized directly in OCI is recognized in income as an impairment loss. The impairment loss is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that security previously recognized in income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognized in income, the impairment loss is reversed through income, up to the amount of the previously recognized impairment loss, as adjusted for any amortization already recognized in income. Any further gains are recognized directly in OCI. Any subsequent losses, to the extent that they do not represent further impairment losses, are also recognized in OCI.

Objective evidence of impairment exists for an available-for-sale equity security when its fair value is below the weighted-average cost by a significant amount. Impairment thresholds are determined quarterly on the basis of the underlying price volatility of securities within the various equity markets in which the Group invests (such as North America, UK, Switzerland, other European countries, Asia Pacific). Additionally, the Group considers an equity security to be impaired when its fair value has been below the weighted-average cost for a prolonged period of 24 consecutive months or longer.

When there is objective evidence that an available-for-sale equity security is impaired, the cumulative loss that had been recognized directly in OCI, including any portion attributable to foreign currency changes, is recognized in income as an impairment loss. The impairment loss is the difference between the weighted-average acquisition cost (less any impairment loss on that security previously recognized in income) and the current fair value. Impairment losses on equity securities are not reversed through income, instead, when the fair value of a previously impaired equity security increases, the resulting unrealized gains will be recognized through OCI. Any further decrease in fair value recorded subsequent to recognition of an impairment loss is also reclassified from OCI to income as impairment losses, together with any portion attributable to foreign currency changes, until the equity security is derecognized.

Held-to-maturity investments and loans and receivables
Generally, significant held-to-maturity financial assets are individually assessed to determine whether or not objective evidence of impairment exists. If no objective evidence of impairment exists the asset is included in a group of financial assets with similar credit risk characteristics that are collectively assessed for impairment.

Objective evidence of impairment exists if it is probable that the Group will not be able to collect principal and/or interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount of held-to-maturity investments, loans or receivables is reduced through the use of an allowance account, and the movement in the impairment allowance is recognized as an impairment loss in income. The impairment allowance of financial assets carried at amortized cost is measured as the difference between the amortized cost of the assets and the present value of estimated future cash flows, calculated using the original effective interest rate, for fixed rate financial assets, or current effective interest rate, for variable rate financial assets. The impairment allowance for mortgage loans and receivables is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for known or anticipated trends in the group of financial assets or individual accounts. If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through income. The amount of reversal is limited so that it does not result in a carrying amount exceeding the amortized cost that would have been calculated at the date of reversal had the impairment not been previously recognized.

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f) Derivative financial instruments and hedge accounting

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

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

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

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

Derivative financial instruments that qualify for hedge accounting

Derivatives are used by the Group to economically hedge risks. In limited circumstances derivatives are designated as hedging instruments for accounting purposes:

- fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability;
- cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction; or
- hedges of the net investment in a foreign operation.

To qualify for hedge accounting, the relationship of the hedging instrument to the underlying transaction must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed in order to determine whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. If these conditions are not met, then the relationship does not qualify for hedge accounting, in which case the hedging instrument and the hedged item are reported independently in accordance with the respective accounting policy as if there was no hedging designation. Where hedge accounting conditions are met, the accounting treatments are as follows:

Fair value hedges

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

Cash flow hedges

The effective portion of the gain or loss on the re-measurement of the cash flow hedging instrument is recognized directly in OCI. The ineffective portion is recognized immediately in income. The accumulated gains and losses on the hedged instrument in OCI are reclassified to income in the same period in which gains or losses on the item hedged are recognized in income.

Where hedge accounting is applied, the Group formally documents all relationships between hedging instruments and hedged items, including the risk management objectives and strategy for undertaking hedge transactions.

g) Borrowings
Borrowings (debt issued) are recognized initially at fair value of the consideration received, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in income over the period of the borrowing using the effective interest rate method.

Preference shares, which are mandatorily redeemable or can be put back for redemption at the option of the holder on a specific or determinable date are classified as liabilities. Dividends on these preference shares are recognized in income as interest expense.

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

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

i) Derecognition of financial assets and liabilities
Financial assets are derecognized when the right to receive cash flows from the assets has expired, or when the Group has transferred its contractual right to receive the cash flows from the financial asset, and either

- substantially all the risks and rewards of ownership have been transferred; or

- substantially all the risks and rewards have not been retained or transferred, but control has been transferred.

Financial liabilities are derecognized when they are extinguished, which is when the obligation is discharged, cancelled or has expired.

Securities lending
Certain entities within the Group participate in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of the securities lending agreements, the Group retains substantially all the risks and rewards of ownership of these loaned securities, and also retains contractual rights to the cash flows therefrom. These securities are therefore not derecognized from the Group's balance sheet. Cash received as collateral for loaned securities is recorded as an asset and a corresponding liability is established.

Repurchase and reverse repurchase transactions
Securities sold under agreements to repurchase at a specified later date (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) are accounted for as collateralized financing transactions.

The securities delivered under a repurchase agreement are not derecognized from the balance sheet when all or substantially all of the risk and rewards are retained. The proceeds received are reported as a liability under obligation to repurchase securities. Interest expense is charged to income using the effective interest rate method over the life of the agreement.

Under a reverse repurchase agreement, the securities received are not recognized on the balance sheet, as long as the risk and rewards of ownership have not been transferred to the Group. The cash delivered is derecognized and a corresponding receivable is recorded and reported within "Other Receivables". Interest income is recognized in income using the effective interest rate method over the life of the agreement.

In cases such as events of default by a third party, it may be determined that the risks and rewards of ownership over the collateral have been obtained by the Group. At such point in time, the securities held under the reverse repurchase agreement would be recognized on the balance sheet at fair value and the original receivable as collateral derecognized. Any shortfall is recorded as a loss in income.

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

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

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

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

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

k) Intangible assets
Intangible assets include goodwill, present value of future profits from acquired insurance contracts, attorney-in-fact relationships, distribution agreements and other intangible assets, such as customer relationships and contracts, affinity partnerships, computer software licenses and capitalized software development costs.

Intangible assets acquired in a business combination are recognized separately from goodwill at the acquisition date if their fair values can be measured reliably, the assets are separable or arise from contractual or other legal rights, and they are controlled by the entity.

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

Other intangible assets with definite lives are carried at cost less accumulated amortization and impairments. They are amortized using the straight-line method over their useful lives and reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

Goodwill
Goodwill arises on the acquisition of subsidiaries, associates and jointly controlled entities and represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the acquisition date.

Goodwill on the acquisition of subsidiaries is capitalized as a separate line and reviewed for impairment annually, or more frequently if impairment indicators are observed. For the purpose of impairment testing, goodwill is allocated to cash generating units (CGU) based on the level at which management monitors operations and makes decisions relating to the continuation or disposal of assets and operations. On this basis, as of January 1, 2011, the Group aggregates CGUs

on a General Insurance segment level. Within the segments Global Life and Farmers cash generating units are identified at either business unit level or individual reporting entity level.

Goodwill on the acquisition of associates and jointly controlled entities is included in the value of equity method accounted investments and is tested for impairment as part of the overall measurement of the carrying amount of those investments.

If goodwill has been allocated to a CGU and an operation within that unit is disposed of, the carrying amount of the operation includes attributable goodwill when determining the gain or loss on disposal.

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

An intangible asset representing the PVFP arises from the acquisition of life insurance businesses. Such an asset has a definite life and is amortized over the expected life of the acquired contracts, following the same rules outlined for deferred acquisition costs. The carrying value of the PVFP asset is tested periodically for impairment as part of the liability adequacy test for insurance contracts.

Attorney-in-fact relationships (AIF)

The AIF reflects the ability of the Group to generate future revenues based on the Group's relationship with the Farmers Exchanges, which are managed but not owned by Farmers Group Inc. (FGI), a wholly owned subsidiary of the Group. In determining that these relationships have an indefinite useful life, the Group considered the organizational structure of inter-insurance exchanges, under which subscribers exchange contracts with each other and appoint an attorney-in-fact to provide non-claims management services, and the historical AIF between FGI and the Farmers Exchanges.

Distribution agreements

Distribution agreements are either entered into separately for a consideration or are acquired in a business combination. The useful lives may extend up to 30 years and are estimated based on the period of time over which they are expected to provide economic benefits, after taking into account all economic and legal factors such as stability of the industry, competitive position and the period of control over the assets. They are amortized using the straight-line method over their useful lives and reviewed for impairments at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Software

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

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

Costs associated with research and maintenance of computer software are expensed as incurred. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

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

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l) Provisions, contingent liabilities, commitments and financial guarantees

Provisions, contingent liabilities, commitments and financial guarantees are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of such an obligation. Provisions are discounted when the effect of the time value of money is considered material.

Restructuring provisions comprise employee termination costs and costs related to onerous contracts. Restructuring provisions are recognized when the Group has a present obligation as a result of a detailed formal plan, which has been announced to those affected and the amount can be reasonably estimated.

m) Treasury shares

Zurich Financial Services Ltd shares and preferred securities classified as equity instruments held by the Group are classified as treasury shares and are deducted from shareholders' equity, net of transaction costs and tax. The nominal value of treasury shares is deducted from share capital. The difference between the nominal value and the amount paid to acquire the treasury shares, is allocated between additional paid-in capital and retained earnings. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of treasury shares.

n) Other revenue recognition

Farmers management fees

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

Other fees and commission income

Revenues from investment management and distribution fees are based on contractual fee arrangements applied to assets under management and recognized as earned when the service has been provided. For practical purposes, the Group recognizes these fees on a straight-line basis over the estimated life of the contract.

The Group charges its customers for asset management and other related services using the following approaches:

- Front-end fees charged to the customer at inception are used particularly for single premium contracts. The consideration received is deferred as a liability and recognized over the life of the contract on a straight-line basis.

- Regular fees charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds are billed in advance and recognized on a straight-line basis over the period in which the service is rendered. Fees charged at the end of the period are accrued as a receivable and are offset against the financial liability when charged to the customer.

o) Net investment income

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

Investment income

Investment income primarily consists of interest income on debt securities, loans and receivables, dividend income on equity securities, rental income from real estate held for investment and income earned on equity method accounted investments.

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

For Group investments, interest income is recognized using the effective interest method. Interest income on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

Investment expenses

Investment expenses consist of costs relating to investment management services and operating expenses for real estate held for investment. These expenses are recognized on an accrual basis.

p) Employee benefits

Share-based compensation and cash incentive plans

The Group operates long-term incentive plans which comprise the allocation of a target number of shares and/or share options. With effect from 2011, share option grants were discontinued.

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

The total amount to be expensed over the period before the vesting date is determined by reference to the fair value of the shares and/ or previously options granted. Non-market vesting conditions (for example, profitability and revenue growth targets) are included in assumptions to determine the number of shares and/or previously options that are expected to be issued or become exercisable. At each balance sheet date, the Group revises its estimates of the number of shares and/or options that are expected to be issued or become exercisable. It recognizes the impact of the revision to original estimates, if any, in income with a corresponding adjustment to additional paid-in capital. However, no subsequent adjustment to total additional paid-in capital is made after the vesting date.

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

As the fair value of the options which the Group uses for its employee schemes cannot be compared with those in the market, the Group estimates the fair value using the Black-Scholes model. This model requires inputs such as share price, exercise price, implied volatility, risk-free interest rate, expected dividend rate and the expected life of the option.

Retirement benefits

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

Actuarial gains and losses are recognized in full in the period in which they occur and are presented on a separate line in the consolidated statement of comprehensive income. Actuarial gains and losses result from experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred during the accounting period), changes in actuarial assumptions since the previous balance sheet date, and differences between the expected and actual returns on plan assets.

Past service costs represent the change in the defined benefit obligation following plan amendments that relate to employee service in prior periods. To the extent that past service costs are vested, they are recognized immediately. Unrecognized past service costs represent past service costs that have not yet vested, and are recognized on a straight-line basis over the average vesting period.

Other post-employment benefits

Other post-employment benefits, such as medical care and life insurance, are also provided for certain employees and are primarily funded internally. Similar to retirement benefits, the cost of such benefits is accrued over the service period of the employees based on the actuarially determined cost for the period.

q) Leases

The Group enters into lease contracts, predominantly of property and equipment, as a lessor and a lessee. The terms and conditions of these contracts are assessed and the leases are classified as operating leases or finance leases according to their economic substance. Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership of the underlying asset are retained by the lessor are classified as operating leases.

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Payments made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the period of the lease, unless another systematic basis is representative of the time pattern of the user's benefit even if the payments are not on that basis.

Finance leases, where the Group is the lessee, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in income. Contingent rents are recognized as expenses in the period in which they are incurred.

r) Income taxes

The Group provides current tax expense according to the tax laws of each jurisdiction in which it operates. Deferred income taxes are recognized using the asset and liability method. Deferred income taxes are recorded for temporary differences, which are based on the difference between financial statement carrying amounts and income tax bases of assets and liabilities using enacted income tax rates and laws. Losses for tax purposes are treated as deferred tax assets to the extent it is probable that they can be utilized against future taxable income in the respective jurisdictions.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them.

Taxes payable by either the holding company or its subsidiaries on expected distributions to the holding company of the profits of subsidiaries are not recognized as deferred income taxes unless a distribution of those profits is intended in the foreseeable future.

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

4. Critical accounting judgments and estimates

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

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

The Group's reserves for reported losses and loss adjustment expenses are based on estimates of future payments to settle reported general insurance claims and claims from the run-off of its former third party reinsurance operations. The Group bases such estimates on the facts available at the time the reserves are established. These reserves are generally established on an undiscounted basis to recognize the estimated costs of bringing pending claims to final settlement. The reserve calculation takes into account inflation, as well as other factors that can influence the amount of reserves required, some of which are subjective and some of which are dependent on future events. In determining the level of reserves, the Group considers historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions, economic conditions and public attitudes may affect the ultimate cost of settlement and, as a result, the Group's estimation of reserves. Between the reporting and final settlement of a claim circumstances may change, which may result in changes to established reserves. Items such as changes in law and interpretations of relevant case law, results of litigation, changes in medical costs, as well as costs of vehicle and home repair materials and labor rates can substantially impact ultimate settlement costs. Accordingly, the Group reviews and re-evaluates claims and reserves on a regular basis. Amounts ultimately paid for losses and loss adjustment expenses can vary significantly from the level of reserves originally set.

The Group establishes IBNR reserves, generally on an undiscounted basis, to recognize the estimated cost of losses for events which have already occurred but which have not yet been notified. These reserves are established to recognize the estimated costs required to bring such claims to final settlement. As these losses have not yet been reported, the Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The Group also uses reported claim trends, claim severities, exposure growth, and other factors in estimating its IBNR reserves. These reserves are revised as additional information becomes available and as claims are actually reported.

The time required to learn of and settle claims is an important consideration in establishing the Group's reserves. Short-tail claims, such as those for automobile and property damage, are normally reported soon after the incident and are generally settled within months following the reported incident. Long-tail claims, such as bodily injury, pollution, asbestos and product liability, can take years to develop and additional time to settle. For long-tail claims, information concerning the event, such as the required medical treatment for bodily injury claims and the measures and costs required to clean up pollution, may not be readily available. Accordingly, the reserving analysis of long-tail lines of business is generally more difficult and subject to greater uncertainties than for short-tail claims.

Since the Group does not establish reserves for catastrophes in advance of the occurrence of such events, these events may cause volatility in the levels of its incurred losses and reserves, subject to the effects of reinsurance recoveries. This volatility may also be contingent upon political and legal developments after the occurrence of the event.

The Group uses a number of accepted actuarial methods to estimate and evaluate the amount of reserves recorded. The nature of the claim being reserved for and the geographic location of the claim influence the techniques used by the Group's actuaries. Additionally, the Group's Corporate Center actuaries perform periodic reserve reviews of the

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Group's businesses throughout the world. Management considers the results of these reviews and adjusts its reserves for losses and loss adjustment expenses, where necessary.

See note 8 for further information on reserves for losses and loss adjustment expenses and to the Insurance risk section of the Risk Review for sensitivities on Insurance risk.

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

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

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

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

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

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

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

See note 8 for further information on future life policyholders' benefits and policyholders' contract deposits and other funds and to the Insurance risk section of the Risk Review.

c) Fair value of financial assets and liabilities

As described in note 3, all financial assets and liabilities are recorded initially at fair value. Subsequently, available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and derivative financial instruments are carried at fair value, as of the reporting date. All other financial instruments are carried at amortized cost, with their fair values disclosed in note 26.

The determination of fair value for financial assets and liabilities is generally based on quoted market prices or broker/dealer quotations. If quoted prices are not readily available, then fair values are derived from valuation models (for example, discounted cash flow models) that estimate the amounts for which the respective financial instruments could be transferred under current market conditions.

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

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

Fair values of debt instruments issued by the Group are estimated using discounted cash flow models based on the Group's current incremental borrowing rates for similar types of borrowings, with maturities consistent with those remaining for the debt instruments being valued.

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

Fair values of liabilities related to unit-linked investment contracts are determined by reference to the fair value of the financial assets backing these liabilities. Fair values of liabilities related to other investment contracts are determined using discounted cash flow models, that incorporate a variety of factors, including credit risk, embedded derivatives (such as unit-linking features), volatility factors (including contract holder behavior), servicing costs and surrenders.

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

In determining the fair values of investments, the Group makes extensive use of third party pricing providers and only in rare cases places reliance on prices that are derived from internal models. One of the objectives of the Group's control environment and the process of selection of pricing providers is to ensure that fair values of investments are sourced only from independent, reliable and reputable third party pricing providers.

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

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

Refer to notes 6, 7 and 26 for further information on the fair value of financial assets and liabilities.

d) Impairment of assets

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

A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more occurred loss events that have an impact on the estimated future cash flows of the financial asset. The decision to record an impairment is based on a review of such evidence, for example, the issuer's current financial position and its future prospects and the national or economic conditions that correlate with defaults on the assets reviewed for impairment.

Consolidated financial statements *continued*

For held-to-maturity investments and loans and receivables, the recoverable amount is determined by reference to the present value of the estimated future cash flows. The carrying amount of mortgage loans and receivables is reduced through an impairment allowance determined using an analytical method based on knowledge of each loan group or receivable. The method is normally based on historical statistics, adjusted for known or anticipated trends in the group of financial assets or individual accounts. As judgment is inherent in such impairment reviews, actual outcomes could vary significantly from the forecast future cash flows.

For goodwill the recoverable amount is the higher of its fair value less costs to sell and its value-in-use. Fair value at a CGU level is determined, considering quoted market prices, current share values in the market place for similar publicly traded entities, and recent sale transactions of similar businesses. Value-in-use is determined using the present value of estimated future cash flows expected to be generated from or used by the CGU. Cash flow projections are based on financial budgets, which are approved by management, typically covering a three-year period or if appropriate, a longer period. Cash flows beyond this period are extrapolated using amongst others estimated perpetual growth rates. The discount rates applied reflect the respective risk free interest rate adjusted for the relevant risk factors to the extent, they have not already been considered in the underlying cash flows.

The recoverable amount for General Insurance intangible assets reflecting distribution agreements is determined on the basis of value-in-use calculations. These calculations use cash flow projections in line with the terms and conditions of the underlying distribution agreements. For Global Life business distribution agreements, the recoverable amount is determined based on projected cash flows and discount rates consistent with the data used for actuarial valuations and embedded value calculations.

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

The discount rates used in the recoverable amount calculations consider the base rates, comprise of the U.S. Dollar, Euro and British pound swap rates for the respective mature markets. These base rates are further adjusted for equity risk premium and appropriate beta to derive the discount rates. Emerging market discount rates are based on the U.S. Dollar discount rate taking into account inflation differential expectations. Input factors to the discount rates are based on observable market data.

In addition to the range of discount rates the table below sets out the perpetual nominal growth rates beyond the planning period which are dependent on country specific growth rate and inflation expectations.

Table 4.1

Overview of discount and perpetual growth rates

	Range of discount rates in % 2011	Range of discount rates in % 2010	**Perpetual nominal growth rate in % 2011**	Perpetual nominal growth rate in % 2010
Western Europe	4.8–10.3	1.3–8.0	0.0–2.5	0.0–5.0
Turkey	9.6–16.0	8.4–15.1	6.0	6.0
Brazil	9.8–11.5	7.3–10.5	2.0	3.5
Farmers	8.3	6.4	0.0	2.0

For the 2011 goodwill impairment testing, the applied discount rate of 7.9 percent for the General Insurance segment represents a weighted rate based on the underlying business operation profit (BOP) by region. The perpetual growth rate was assumed to be zero.

Sensitivity tests were performed where deemed appropriate and typically comprised of an analysis for a decrease in cash flows of up to 25 percent, a decrease in the perpetual growth rate of up to 1.5 percentage points and an increase in the discount rate subject to the specific country risk premium. No impairments were identified on this basis.

See notes 3, 6, 15, 17 and 18 for further information on impairment of assets.

e) Fair values of assets and liabilities attributable to business combinations
Acquired businesses are accounted for using the purchase method of accounting which requires that the assets acquired and liabilities assumed are recorded at the date of acquisition at their respective fair values. Fair values of financial assets and liabilities and insurance liabilities are determined as described in the respective sections above.

Fair values of identifiable intangible assets are based on market-participant assumptions and applicable valuation techniques, depending on the nature of the assets valued. For customer relationship and contract intangibles, including bancassurance agreements, the multi-period excess earnings or cash flow method is applied, using future cash flows expected to be generated from such assets discounted at applicable market rates. For information technology intangibles the replacement cost method is generally applied.

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

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

See note 12 for further information on deferred policy acquisition costs.

g) Deferred taxes
Deferred tax assets are recognized if sufficient future taxable income, including income from the reversal of existing taxable temporary differences and available tax planning strategies, is available for realization. The utilization of deferred tax assets arising from temporary differences depends on the generation of sufficient taxable profits in the period in which the underlying asset or liability is recovered or settled. The utilization of deferred tax assets arising from unused tax losses or tax credits depends on the generation of sufficient taxable profits before the unused tax losses or tax credits expire. As of each balance sheet date, management evaluates the recoverability of deferred tax assets and if it is considered probable, that all or a portion of the deferred tax asset will not be utilized, then a valuation allowance is recognized.

See note 20 for further information on deferred taxes.

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

See note 23 for further information on employee benefits.

i) Share-based compensation and cash incentive plans
The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. Share-based compensation plans include plans under which shares and, until 2010, options to purchase shares, based on the performance of the businesses, are awarded. The fair value of options granted is estimated using the Black-Scholes option pricing model. The key factors involve, but are not limited to, the expected share price volatility, expected changes in dividend rate and the contracted option life. These assumptions may differ from actual results due to changes in economic conditions.

See note 24 for further information on share-based compensation and cash incentives plans.

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5. Acquisitions and divestments

Transactions in 2011

Acquisitions

On October 5, 2011 the Group completed the acquisition of a 51.0 percent participation in a holding company, which owned the life insurance, pension and general insurance operations of Banco Santander S.A. (Santander) in Brazil and Argentina. Between November 2, 2011 and November 4, 2011 the holding company completed the acquisition of a 100 percent participation in the life insurance, pension and general insurance operations of Santander in Chile, Mexico and Uruguay with the Group ultimate ownership of 51.0 percent. The Group obtained control over the acquired entities through its majority of voting rights in the holding company's board of directors and as shareholder, which allows the Group to direct the relevant activities of the insurance operations. As part of the transaction, the Group entered into long-term strategic distribution arrangements with Santander in Latin America. This transaction is in line with the Group's emerging market strategy in both Global Life and General Insurance, and significantly expands the Group's presence in Latin America.

The initial consideration paid by the Group amounted to approximately USD 1.2 billion, subject to final purchase price and other adjustments. The Group and Santander also entered into loan agreements with several of the acquired companies, whereby total funds of USD 0.5 billion where provided to the insurance operations, split in line with the participation rights between the Group and Santander. In addition to the initial consideration, both an earn-out component based on the future profitability under the distribution agreements and a protection mechanism for the Group's initial consideration, which is based on a similar future profitability criteria, have been agreed. Under the earn-out arrangement, payments are scheduled to be made after every five year period starting January 1, 2011 until December 31, 2035 by the Group, subject to the achievement of the profitability criteria. The earn-out payments are scheduled to increase over the 25 year period up to a cumulative maximum total amount of USD 1.6 billion, based on December 31, 2011 foreign exchange rates. The fair value of the earn-out component is still being assessed and is therefore not reflected in the Consolidated financial statements as of December 31, 2011.

Given the size and the timing of the transaction the Group is still in the process of completing the initial purchase accounting. As of December 31, 2011 total assets of the acquired insurance operations amount to USD 15.6 billion and total liabilities amount to USD 13.2 billion. The 49.0 percent interest owned by Santander of USD 1.1 billion is recorded as non-controlling interests. These preliminary numbers will be allocated to individual balance sheet line items in a subsequent period. The assets and liabilities of the acquired holding company are already included in the respective line items. The financial result for the period since acquisition is not included in the Group's consolidated income statement for the year ended December 31, 2011.

Based on a preliminary assessment the table below shows key financial information for the companies acquired.

Preliminary financial information

Table 5

Amounts in USD millions	Global Life	General Insurance	Total	Group's share net of non-controlling interests
Gross written premium since acquisition[1]	378	118	496	253
Gross written premium for 12 months[1]	2,326	677	3,003	1,532
Net income after taxes since acquisition[1]	n/a	n/a	73	37
Net income after taxes for 12 months[1]	n/a	n/a	372	190
Purchase price paid prior to purchase price adjustments and earn-out amounts[2]	n/a	n/a	n/a	1,156
Estimated total tangible net assets as of acquisition date[3]	n/a	n/a	1,400	714
Estimated total intangible assets as of acquisition date[4]	n/a	n/a	1,375	701

[1] Based on local GAAP information, as IFRS information is not yet available. The information is deemed to be a reasonable approximation but excludes the amortization of identified intangible assets and PVFP which have yet to be determined in accordance with IFRS requirements.
[2] Net of acquired debt of USD 510 million at 100 percent.
[3] Based on a preliminary assessment, excluding debt of USD 510 million. Final numbers are subject to change.
[4] Prior to accounting for the earn-out component of USD 1.6 billion on a gross undiscounted basis.

A provisional fair value of the acquired identifiable intangible assets, primarily the value of the distribution agreements and the present value of future profits, is not yet available. The value of the distribution agreement will be reported on a 100 percent basis and is estimated to represent a significant portion of the purchase price paid.

Acquisition related costs of USD 24 million are included in other administrative expenses for the year ended December 31, 2011, and have been excluded from BOP.

Significant intercompany transactions between the newly acquired companies and the Group between the date of acquisition and December 31, 2011 were:

- The newly acquired holding company granted a short term loan of USD 86 million to the Group;

- The Group granted a long term loan of USD 246 million to one of the newly acquired entities.

On September 30, 2011, the Group completed the acquisition of 100 percent of Malaysian Assurance Alliance Berhad (MAA), a composite insurer based in Malaysia, together with 100 percent of four related services companies. The acquisition of MAA is aligned with the Group's emerging-market strategy of expanding the Group's presence in the Asia-Pacific region. The total preliminary purchase price of USD 135 million included an initial consideration of USD 108 million and an anticipated purchase price adjustment amounting to USD 27 million. Of the initial consideration, USD 56 million was paid in cash on completion, USD 30 million was placed into escrow and USD 22 million was retained by the Group. The amount in escrow and the retention are to be held for a period of two years. The fair value of net tangible assets acquired amounted to USD 113 million and identifiable intangible assets, net of deferred tax, amounted to USD 19 million which mainly consisted of the PVFP from insurance contracts. Residual goodwill amounted to USD 3 million. In addition, the Group has injected approximately USD 135 million of capital into MAA since the completion of the acquisition to meet regulatory capital requirements.

On July 12, 2011, as part of its preparations for local regulatory changes, the Group completed the acquisition of 75.0 percent of 2Plan Group Limited, an independent financial advice firm based in the UK. The total purchase price for the acquisition amounted to zero. The remaining 25.0 percent shareholding continues to be held by members of the founder management team who have options to sell their shareholding to the Group at a price contingent upon the achievement of future profit targets by 2Plan Group Limited. Based on the preliminary initial purchase accounting the tangible net assets acquired amounted to negative USD 5 million and identifiable intangible assets, net of deferred tax, amounted to USD 1 million consisting of software and capitalized recruitment director fees. Goodwill amounted to USD 4 million and reflects the future value from the Group's improved independent financial advisor proposition and technology offering in the UK.

Divestments

On January 12, 2012, the Group sold all of its shares in La Boliviana Ciacruz de Seguros y Reaseguros S.A. and Zurich Boliviana de Seguros Personales S.A. based in Bolivia, general and life insurance companies. As of December 31, 2011 the operations were classified as held for sale and the resulting loss on divestment of businesses amounted to USD 13 million.

On June 30, 2011, the Group sold all of its shares in Lonsec Limited, including three wholly owned subsidiaries, a research and broking company based in Australia, in an effort to focus on its core business lines, recording a pre-tax gain on disposal in aggregate of USD 10 million. On July 1, 2011, the Group entered into business outsourcing agreements for which a pre-tax gain of USD 9 million was realized. Total cash and net assets divested in 2011 were USD 8 million and USD 8 million, respectively. The total consideration received in 2011, net of immaterial transaction costs, amounted to USD 28 million.

Transactions in 2010

Acquisitions

On November 1, 2010 the Group completed the acquisition of 80.0 percent of PT Zurich Topas Life (formerly PT Mayapada Life), a life insurer based in Indonesia focused on the distribution of group and individual life and health plans. Mayapada Group will continue to hold 20.0 percent of PT Zurich Topas Life. Through this transaction, the Group established its presence in the Indonesian life insurance market. Total acquisition costs amounted to less than USD 1 million. PT Zurich Topas Life has been included in the Group's Consolidated financial statements as of January 1, 2011.

On December 1, 2010 the Group completed the acquisition of 99.99 percent of Compagnie Libanaise d'Assurances SAL, a composite insurer based in Lebanon with branch operations in the United Arab Emirates, Kuwait and Oman. With this

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transaction the Group accelerated the expansion of its operations in the Middle East. Following a preliminary purchase price adjustment the total purchase price reduced to USD 33 million. Based on immaterial net assets acquired the residual goodwill amounted to USD 33 million and represents expected growth opportunities in the region.

Divestments and loss of control

On February 15, 2010, Royal Bafokeng Finance (Pty) Limited (RBF), an investment company based in South Africa and wholly owned by Royal Bafokeng Holdings (Pty) Limited, based in South Africa and responsible for the management and development of the commercial assets of the Royal Bafokeng Nation, increased its shareholding in Zurich Insurance Company South Africa Limited (ZICSA), of which the Group owned 73.61 percent, by 15.1 percent from 10.0 percent to 25.1 percent for a consideration of USD 32 million in cash with option rights to increase its shareholding up to 51.0 percent or sell the entire stake back to the Group. To appropriately reflect the nature of the put and call options on the shares of ZICSA, the Group has reclassified the 25.1 percent non-controlling interest of RBF as a liability measured at fair value in the Consolidated financial statements. Following this transaction and the acquisition of 0.44 percent of ZICSA shares, the Group owned 58.95 percent of ZICSA shares as of December 31, 2010.

The Group lost control from an accounting perspective in CaixaSabadell Vida, S.A. de Seguros y Reaseguros and CaixaSabadell Compagnia d'Assegurances Generals, S.A. as of September 30, 2010, following the merger of the bank distribution partner Caixa d'Estalvis de Sabadell (Caixa Sabadell) together with two other Spanish savings banks to form Caixa d'Estalvis Unió de Caixes de Manlleu, Sabadell i Terrassa (Unnim) on July 1, 2010. Subsequently, on November 16, 2010 the Group entered into a definitive agreement to sell back to Unnim its 50 percent stakes in the life and general insurance bancassurance companies, CaixaSabadell Vida, S.A. de Seguros y Reaseguros and CaixaSabadell Companyia d'Assegurances Generals, S.A., respectively, jointly owned with Unnim (the Unnim Jointly Owned Companies). The Group derecognized the assets and liabilities at their carrying amount and recognized its retained investment in the Unnim Jointly Owned Companies as an equity security classified as available-for-sale as of September 30, 2010. USD 52 million was recorded within net gain on divestments of businesses in 2010. Following approval by the relevant regulatory authorities, the transaction was closed on February 28, 2011. Unnim paid a cash consideration of USD 393 million (EUR 285 million) to the Group in exchange for the Group's Unnim Jointly Owned Companies stakes, which the Group acquired in 2008 from Caixa Sabadell.

As of December 31, 2010 the Group no longer has control in Futuro de Bolivia S.A. Administradora de Fondos de Pensiones following changes in the regulatory environment. The Group derecognized the assets and liabilities at their carrying amount and recorded a net loss of USD 16 million within net gain/(loss) on divestments of businesses. During 2010, the Group also divested all of its shares in Trent Insurance Company Limited, a company based in the UK and Maryland Insurance Company, a company based in the U.S., for a pre-tax gain on disposal in aggregate of USD 2 million with immaterial cash and net assets sold.

6. Investments

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	
	2011	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	65	54	10	7	75	60
Equity securities	1,819	1,674	(5,193)	8,467	(3,374)	10,142
Debt securities	5,684	5,550	1,158	1,500	6,842	7,050
Real estate held for investment	859	791	(33)	216	825	1,007
Mortgage loans	494	505	(135)	(353)	358	153
Other loans	873	819	202	(1)	1,075	818
Investments in associates and joint ventures	12	17	(45)	(37)	(33)	(20)
Derivative financial instruments[1]	–	–	918	(369)	918	(369)
Investment result, gross	9,805	9,410	(3,119)	9,430	6,685	18,841
Investment expenses	(863)	(757)	–	–	(863)	(757)
Investment result, net	**8,942**	**8,653**	**(3,119)**	**9,430**	**5,823**	**18,083**

[1] Net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD (13) million and USD 10 million for the years ended December 31, 2011 and 2010, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 203 million and USD 201 million for the years ended December 31, 2011 and 2010, respectively.

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	
	2011	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	62	52	1	(1)	63	51
Equity securities	329	340	311	285	641	625
Debt securities	5,375	5,268	923	1,230	6,297	6,498
Real estate held for investment	531	466	46	28	576	494
Mortgage loans	494	505	(135)	(353)	358	153
Other loans	635	669	202	54	837	723
Investments in associates and joint ventures	12	17	(45)	(37)	(33)	(20)
Derivative financial instruments[1]	–	–	880	(308)	880	(308)
Investment result, gross for Group investments	7,437	7,317	2,182	898	9,619	8,215
Investment expenses for Group investments	(252)	(225)	–	–	(252)	(225)
Investment result, net for Group investments	**7,185**	**7,092**	**2,182**	**898**	**9,367**	**7,990**

[1] Net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD (13) million and USD 10 million for the years ended December 31, 2011 and 2010, respectively.

For the years ended December 31, 2011 and 2010, respectively, impairment charges on Group investments included in net capital gains/(losses) amounted to USD 458 million and USD 1,001 million, including USD 133 million and USD 407 million, respectively, for impairment charges on mortgage loans, other loans and investments in associates and joint ventures.

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Investment result for unit-linked contracts

Table 6.1c

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments		Investment result	
	2011	2010	**2011**	2010	**2011**	2010
Cash and cash equivalents	3	2	9	8	12	9
Equity securities	1,490	1,335	(5,505)	8,182	(4,015)	9,516
Debt securities	309	282	236	270	545	552
Real estate held for investment	328	325	(79)	188	249	513
Other loans	237	150	–	(55)	237	95
Derivative financial instruments	–	–	38	(60)	38	(60)
Investment result, gross for unit-linked contracts	2,367	2,093	(5,302)	8,533	(2,934)	10,626
Investment expenses for unit-linked contracts	(610)	(532)	–	–	(610)	(532)
Investment result, net unit-linked contracts	**1,757**	**1,561**	**(5,302)**	**8,533**	**(3,544)**	**10,093**

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

Table 6.2

in USD millions, for the years ended December 31	Equity securities		Debt securities		Total	
	2011	2010	**2011**	2010	**2011**	2010
Securities at fair value through profit or loss:	(5,472)	8,476	777	643	(4,695)	9,120
Net capital gains/(losses) on Group investments	33	294	541	373	574	667
of which:						
Trading securities	*12*	36	*5*	4	*17*	40
Securities designated at fair value through profit or loss	*20*	258	*537*	369	*557*	628
Net capital gains/(losses) for unit-linked contracts	(5,505)	8,182	236	270	(5,269)	8,452
Available-for-sale securities:	279	(9)	382	817	660	808
Realized capital gains on Group investments	705	610	1,278	1,468	1,983	2,078
Realized capital losses on Group investments	(156)	(122)	(841)	(514)	(997)	(636)
Impairments on Group investments	(270)	(497)	(55)	(137)	(325)	(634)
Held-to-maturity securities[1]	–	–	–	40	–	40
Total net capital gains/(losses) and impairments	**(5,193)**	**8,467**	**1,158**	**1,500**	**(4,035)**	**9,967**

[1] 2010 gains arise entirely from the reversal of impairments.

Details of total investments by category

Table 6.3a

as of December 31	Total investments			
	2011		2010	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	10,048	3.4	9,726	3.2
Equity securities:				
Fair value through profit or loss	83,116	27.8	89,695	29.5
of which:				
Trading securities	*438*	*0.1*	*473*	*0.2*
Securities designated at fair value through profit or loss	*82,678*	*27.7*	*89,223*	*29.4*
Available-for-sale[1]	7,973	2.7	9,798	3.2
Total equity securities	91,088	30.5	99,494	32.7
Debt securities:				
Fair value through profit or loss	19,845	6.6	16,245	5.3
of which:				
Trading securities	*50*	*0.0*	*43*	*0.0*
Securities designated at fair value through profit or loss	*19,795*	*6.6*	*16,202*	*5.3*
Available-for-sale	129,306	43.2	128,257	42.2
Held-to-maturity	5,535	1.9	5,129	1.7
Total debt securities	154,686	51.7	149,630	49.2
Real estate held for investment	12,365	4.1	12,355	4.1
Mortgage loans	11,058	3.7	11,851	3.9
Other loans	19,582	6.5	20,601	6.8
Investments in associates and joint ventures	161	0.1	188	0.1
Total investments	**298,988**	**100.0**	**303,845**	**100.0**

[1] As of December 31, 2011 and 2010 this includes the Group's investment of 12.5 percent and 20 percent, respectively, in New China Life Insurance Company Ltd., over which the Group has no significant influence.

Details of Group investments by category

Table 6.3b

as of December 31	Group investments			
	2011		2010	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	8,768	4.5	8,182	4.2
Equity securities:				
Fair value through profit or loss	3,253	1.7	3,931	2.0
of which:				
Trading securities	*438*	*0.2*	*473*	*0.2*
Securities designated at fair value through profit or loss	*2,816*	*1.4*	*3,458*	*1.8*
Available-for-sale[1]	7,973	4.1	9,798	5.0
Total equity securities	11,226	5.8	13,729	7.0
Debt securities:				
Fair value through profit or loss	8,020	4.1	6,869	3.5
of which:				
Trading securities	*50*	*0.0*	*43*	*0.0*
Securities designated at fair value through profit or loss	*7,971*	*4.1*	*6,826*	*3.5*
Available-for-sale	129,306	66.5	128,257	65.5
Held-to-maturity	5,535	2.8	5,129	2.6
Total debt securities	142,861	73.5	140,254	71.6
Real estate held for investment	8,468	4.4	8,274	4.2
Mortgage loans	11,058	5.7	11,851	6.0
Other loans	11,842	6.1	13,419	6.9
Investments in associates and joint ventures	161	0.1	188	0.1
Total Group investments	**194,385**	**100.0**	**195,898**	**100.0**

[1] As of December 31, 2011 and 2010 this includes the Group's investment of 12.5 percent and 20 percent, respectively, in New China Life Insurance Company Ltd., over which the Group has no significant influence.

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Cash and investments with a carrying value of USD 6,227 million and USD 5,176 million were deposited on behalf of regulatory authorities as of December 31, 2011 and 2010, respectively.

Securities under security lending and short-term sale and repurchase agreements
As of December 31, 2011 and 2010, investments included USD 6,298 million and USD 5,873 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Liabilities for cash collateral received for securities lending comprised USD 159 million and USD 485 million as of December 31, 2011 and 2010, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 6,474 million and USD 5,663 million as of December 31, 2011 and 2010, respectively. The Group can sell or repledge the collateral only in the event of a default by a counterparty.

As of December 31, 2011 and 2010, respectively, debt securities with a carrying value of USD 1,807 million and USD 3,383 million have been sold to financial institutions under short-term sale and repurchase agreements. These securities continue to be recognized as investments in the Group's consolidated balance sheets. Obligations to repurchase these securities amounted to USD 1,794 million and USD 3,330 million as of December 31, 2011 and 2010, respectively.

The Group retains the rights to the risks and benefits of ownership of loaned securities and securities under short-term sale and repurchase agreements. These risks and benefits include changes in market values and income earned.

Details of investments held for unit-linked contracts

Table 6.3c

as of December 31	Investments for unit-linked contracts			
	2011		2010	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	1,280	1.2	1,544	1.4
Equity securities	79,862	76.3	85,765	79.5
Debt securities	11,825	11.3	9,376	8.7
Real estate	3,898	3.7	4,081	3.8
Other loans	7,739	7.4	7,182	6.7
Total investments for unit-linked contracts	**104,603**	**100.0**	**107,947**	**100.0**

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

Accrued interest on unit-linked investments included in accrued investment income amounted to USD 303 million and USD 247 million as of December 31, 2011 and December 31, 2010, respectively.

Debt securities maturity schedule (total investments)

Table 6.4

in USD millions, as of December 31	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2011	2010	2011	2010	2011	2010
Debt securities:						
< 1 year	680	131	11,071	9,147	4,486	1,859
1 to 5 years	2,225	1,915	40,987	41,406	4,894	4,910
5 to 10 years	613	1,097	30,177	27,697	3,761	3,180
> 10 years	2,017	1,986	26,661	25,923	5,632	5,014
Subtotal	5,535	5,129	108,896	104,173	18,773	14,963
Mortgage and asset-backed securities:						
< 1 year	–	–	866	575	41	17
1 to 5 years	–	–	6,417	7,933	365	295
5 to 10 years	–	–	3,361	4,843	252	325
> 10 years	–	–	9,765	10,733	414	645
Subtotal	–	–	20,410	24,084	1,072	1,282
Total	**5,535**	**5,129**	**129,306**	**128,257**	**19,845**	**16,245**

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

Available-for-sale securities

Table 6.5

in USD millions, as of December 31	Cost or amortized cost[1]		Gross unrealized gains		Gross unrealized losses		Fair value	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Equity securities								
Common stock	3,967	4,047	1,490	2,202	(417)	(324)	5,040	5,925
Unit trusts	2,775	3,730	309	341	(309)	(339)	2,775	3,731
Non-redeemable preferred stock	159	141	8	7	(8)	(7)	158	141
Total equity securities	**6,900**	**7,919**	**1,806**	**2,551**	**(733)**	**(671)**	**7,973**	**9,798**
Debt securities								
Swiss federal and cantonal governments	3,104	3,082	511	262	–	(9)	3,615	3,335
United Kingdom government	7,257	8,168	736	197	(3)	(22)	7,989	8,344
United States government	8,498	7,092	549	231	(42)	(104)	9,005	7,220
Other governments and supra-nationals	34,350	33,226	1,553	923	(1,303)	(855)	34,600	33,294
Corporate securities	52,407	50,786	3,720	2,934	(2,460)	(1,763)	53,667	51,957
Mortgage and asset-backed securities	19,713	23,617	939	865	(242)	(398)	20,410	24,084
Redeemable preferred stocks	37	23	1	–	(19)	–	19	24
Total debt securities	**125,367**	**125,995**	**8,008**	**5,412**	**(4,069)**	**(3,150)**	**129,306**	**128,257**

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

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Fair value through profit or loss securities

Table 6.6

as of December 31	Group investments				Investments for unit-linked products		Total investments	
	2011		2010		**2011**	2010	**2011**	2010
	USD millions	**% of total**	USD millions	% of total	**USD millions**	USD millions	**USD millions**	USD millions
Equity securities:								
Common stock	2,539	22.5	2,905	26.9	38,176	45,188	40,715	48,093
of which: common stock portfolios backing participating with profit policyholder contracts	*420*	*3.7*	*516*	*4.8*	–	–	*420*	*516*
Unit trusts	711	6.3	1,024	9.5	41,575	40,486	42,286	41,510
Non-redeemable preferred stock	3	0.0	2	0.0	111	91	114	93
Total equity securities	**3,253**	**28.9**	**3,931**	**36.4**	**79,862**	**85,765**	**83,116**	**89,695**
Debt securities:								
Debt securities	7,163	63.5	5,851	54.2	11,610	9,111	18,773	14,963
Mortgage and asset-backed securities	857	7.6	1,017	9.4	214	265	1,072	1,282
Total debt securities	**8,020**	**71.1**	**6,869**	**63.6**	**11,825**	**9,376**	**19,845**	**16,245**
Total	**11,274**	**100.0**	**10,799**	**100.0**	**91,687**	**95,141**	**102,961**	**105,940**

Held-to-maturity debt securities

Table 6.7

as of December 31	**2011**		2010	
	USD millions	**% of total**	USD millions	% of total
Swiss federal and cantonal governments	1,804	32.6	1,813	35.3
United States government	1,839	33.2	1,576	30.7
Other governments and supra-nationals	1,148	20.7	803	15.7
Corporate securities	743	13.4	937	18.3
Total held-to-maturity debt securities	**5,535**	**100.0**	**5,129**	**100.0**

Real estate held for investment (total investments)

Table 6.8

in USD millions	**Total**	
	2011	2010
As of January 1	12,355	11,686
Additions and improvements	267	340
Acquisitions	115	–
Disposals	(396)	(190)
Market value revaluation	40	261
Transfer from assets held for own use	116	77
Transfer to assets held for sale	–	(12)
Foreign currency translation effects	(133)	193
As of December 31	**12,365**	**12,355**

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

Investments in associates and joint ventures

Table 6.9

in USD millions, as of December 31	Carrying value		Share in profit		Ownership interest	
	2011	2010	2011	2010	2011	2010
Associates:						
DKN Financial Group Limited[1]	–	33	1	2	–	30.51%
Seven Investment Management Limited	19	17	2	1	49.00%	49.00%
Other	16	15	1	7	–	–
Joint ventures:						
MCIS Zurich Insurance Berhad	41	36	4	3	40.00%	40.00%
Other	3	8	1	1	–	–
SPEs:[2]						
Euclid Office, L.P.	29	28	2	2	99.00%	99.00%
Dallas Tower, L.P.	13	12	1	1	99.00%	99.00%
Other	39	38	–	1	–	–
Total	**161**	**188**	**12**	**17**	**–**	**–**

[1] Disposed of in October 2011.
[2] The Group has several special purpose entities (SPEs) in the U.S. which are consolidated using the equity method as a reasonable approximation, as the equity pick up is usually 99% and the investment balance approximates the value of the SPE's assets. These entities were specifically designed to facilitate U.S. commercial property sale and leaseback transactions.

Net unrealized gains/(losses) on Group investments included in other comprehensive income

Table 6.10

in USD millions, as of December 31	Total	
	2011	2010
Equity securities: available-for-sale	1,072	1,880
Debt securities: available-for-sale	3,941	2,262
Other	295	76
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(1,349)	(662)
Life deferred acquisition costs	(97)	(154)
Deferred income taxes	(834)	(869)
Non-controlling interests	3	(9)
Total[1]	**3,032**	**2,524**

[1] Net unrealized gains/(losses) include net gains arising on cash flow hedges of USD 232 million and USD 56 million as of December 31, 2011 and 2010, respectively. In 2011 the Group applied the cash flow hedge methodology to hedge the foreign currency risk exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge the interest rate exposure with changes in the fair value being recorded through the income statement.

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7. Derivative financial instruments and hedge accounting

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

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

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2011 and 2010, respectively. Whilst these notional amounts express the extent of the Group's involvement in derivative transactions, they are not however representative of amounts at risk. Fair values for derivatives are included in the consolidated balance sheets in other assets and other liabilities.

Table 7.1

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

in USD millions, as of December 31						2011			2010
	Maturity by notional amount			Notional amounts	Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Interest rate contracts:									
OTC									
Swaps	686	430	3,158	4,274	307	(14)	3,054	187	(84)
Swaptions	539	3,113	4,360	8,012	560	(43)	6,618	214	(30)
Caps	–	–	–	–	–	–	206	–	–
Exchange traded									
Futures	997	–	–	997	–	–	1,203	–	–
Total interest rate contracts	**2,222**	**3,543**	**7,519**	**13,284**	**867**	**(58)**	**11,080**	**401**	**(114)**
Equity contracts:									
OTC									
Swaps	36	–	–	36	–	(1)	281	–	(1)
Puts	1,928	441	1,650	4,019	253	(264)	4,543	189	(225)
Calls	780	1,332	3	2,115	41	(75)	3,919	69	(110)
Exchange traded									
Puts	44	–	–	44	4	–	74	3	–
Calls	22	–	–	22	–	(1)	58	1	–
Futures	511	–	–	511	–	(8)	290	–	(4)
Total equity contracts	**3,321**	**1,772**	**1,654**	**6,747**	**298**	**(347)**	**9,165**	**263**	**(340)**
Foreign exchange contracts:									
OTC									
Cross Currency Swaps	–	423	–	423	–	(28)	425	–	(26)
Options	789	–	–	789	–	(11)	–	–	–
Forwards	14,205	–	–	14,205	124	(110)	14,413	343	(445)
Total foreign exchange contracts	**14,995**	**423**	**–**	**15,418**	**124**	**(149)**	**14,838**	**343**	**(471)**
Credit contracts:									
OTC									
Credit Default Swaps	130	30	–	160	–	(1)	432	2	–
Total credit contracts	**130**	**30**	**–**	**160**	**–**	**(1)**	**432**	**2**	**–**
Other contracts:									
OTC									
Puts	–	–	523	523	–	(52)	833	–	(27)
Swaps	–	–	69	69	–	(9)	66	–	(5)
Total other contracts	**–**	**–**	**591**	**591**	**–**	**(61)**	**899**	**–**	**(33)**
Total Group derivative financial instruments	20,667	5,769	9,763	36,200	1,290	(616)	36,414	1,009	(958)
Total unit-linked derivative financial instruments	662	1,158	66	1,886	65	(37)	2,353	104	(3)
Total	**21,329**	**6,927**	**9,829**	**38,085**	**1,356**	**(653)**	**38,767**	**1,113**	**(961)**

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Interest rate contracts

Interest rate contracts are used to hedge risks from changes in interest rates and to manage asset liability mismatches. Whenever possible the Group enters into exchange traded contracts, which are standardized and regulated. Furthermore, because of the structure of the Exchanges, exchange traded contracts are not considered to carry counterparty risk. Over the counter (OTC) contracts are otherwise applied and comprise swaps and swaptions.

In terms of notional amounts, the major change compared with December 31, 2010 related to additional long receiver swaptions entered to protect one of the Group's large life insurance books against falling interest rates and interest rate swaps related to a closed book of variable annuities products within the U.S. life business.

Equity contracts

Equity contracts are entered into mostly on a portfolio level to protect equity investments against a decline in equity market prices and to manage the risk return profile of equity exposures. Most equity contracts are purchased put options. The decrease in the notional amount of call options between December 31, 2011 and December 31, 2010 was mainly driven by the sale of a book of guaranteed equity bonds (structured deposit accounts) to an external counterparty. Total return swaps and exchange traded options relate to the dynamic hedging strategy that has been put in place to reduce the volatility associated with a closed book of variable annuities products within its U.S. life business.

Almost all positions are for hedging purposes. With respect to the short positions, call options are used in collar structures to mitigate the hedging costs and the written put positions are mostly backed by long put positions or by cash collateral.

Foreign exchange contracts

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

In 2011 the Group decided to hedge the purchase price of a large acquisition. As of December 31, 2011 there were still USD 789 million in notional term of foreign exchange options outstanding.

The notional amounts of foreign exchange forwards decreased by USD 208 million between December 31, 2010 and December 31, 2011, as a result of market movements.

Credit contracts

The decrease in notional for credit default swaps, purchased by the Group to protect reinsurance assets, related to matured positions.

Other contracts

Other contracts predominantly include stable value options (SVOs), which include written equity put options. SVOs have been provided by the Group to certain bank and corporate customers (policyholders) in the U.S., in respect of the investment returns which arise on investments underlying Bank Owned Life Insurance (BOLI) and Company Owned Life Insurance (COLI) policies. Premiums received from policyholders under these policies are invested in separate account portfolios. Throughout the life of the policies, policyholders are entitled, in addition to mortality cover, to tax-exempt investment returns linked to the performance of the underlying investments. The policies are long duration contracts providing charges and benefits over a policy life that can be greater than 45 years. SVOs reduce the volatility of the policyholders' investment returns. In the event that a policy is surrendered, the policyholder would be entitled to recover the excess of the notional SVO derived value as well as the market value of the underlying investments. Certain policy features as well as certain regulations provide disincentives for surrender. The Group monitors the risk of surrender on an ongoing basis and considers the likelihood of surrender as an input factor to the model to determine the fair value of the SVOs. During 2011, there were two full surrenders compared with five surrenders in 2010. In 2011 the net gain on surrender amounted to USD 1 million. The fair value of the derivative liability recognized in respect of the SVOs, included in written put options, was USD 52 million and USD 25 million as of December 31, 2011 and 2010, respectively. The notional SVO derived value was USD 523 million and USD 831 million as of December 31, 2011 and 2010, respectively, representing the total loss before surrender charges in the unlikely event that all policies would have been surrendered on those dates.

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

Table 7.2

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

in USD millions, as of December 31						2011			2010
	Maturity by notional amount			Notional principal amounts	Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Fair value hedges:									
Cross currency interest rate swaps	–	1,518	–	1,518	269	–	1,540	258	–
Currency swaps	–	1	69	69	–	(38)	69	–	(37)
Total fair value hedges	**–**	**1,519**	**69**	**1,588**	**269**	**(38)**	**1,609**	**258**	**(37)**
Cash flow hedges:									
Options on interest rate swaps	–	901	2,229	3,130	414	–	3,855	331	–
Currency swaps	–	1,768	–	1,768	75	(9)	1,768	68	(7)
Interest rate swaps	37	91	75	203	11	–	302	6	–
Total cash flow hedges	**37**	**2,761**	**2,304**	**5,102**	**501**	**(9)**	**5,925**	**406**	**(7)**

Fair value hedges

Designated fair value hedges consist of cross currency interest rate swaps used to protect the Group against changes in foreign currency exposure and interest rate exposure of Euro and U.S. dollar - denominated debt issued by the Group.

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

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

A fair value hedge relationship on the USD 750 million 3.25 percent senior bond due for repayment in September 2013 issued by Zurich Finance (Luxembourg), S.A. (see note 21), was entered into on April 8, 2010 and will end on the maturity of the underlying debt instrument in 2013.

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

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

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

Table 7.3

Gains/(losses) arising from fair value hedges

in USD millions, as of December 31	2011	2010
Gains/(losses)		
on hedging instruments[1]	*(6)*	*(52)*
on hedged items attributable to the hedged risk	*–*	*44*

[1] Excluding current interest income, which is booked on the same line as an offset to the interest expense on the hedged debt.

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Cash flow hedges

Designated cash flow hedges, such as options on interest rate swaps are used to protect the Group against variability of future cash flows due to changes in interest rates associated with expected future purchases of debt securities (during the years 2016, 2021 and 2026) required for certain life insurance policies. The effective portion of the gains and losses on these swaps are initially recognized in other comprehensive income. Subsequently the gains or losses will be recycled to income between the years ended December 31, 2012 and 2036. The gains and losses relating to the ineffective portion of these hedges are recognized immediately in income within net capital gains/losses on investments and impairments.

The Group also uses currency swaps for cash flow hedging to protect against exposures to variability of cash flows. The change in the fair value of the hedging instrument is recognized directly in other comprehensive income. The ineffective portion of the change in fair value is recognized directly in income within administrative and other operating expense. The effective portion, related to spot rate changes in the fair value of the hedging instrument, is reclassified to income within administrative and other operating expense as an offset to foreign currency revaluation on the underlying hedged debt.

As of December 31, 2011 the following cash flow hedge relationships were in place (see note 21):

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

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

The net gains deferred in other comprehensive income on derivatives designated as cash flow hedges were USD 245 million and USD 74 million before tax for the years ended December 31, 2011 and 2010, respectively.

The portion recognized in income was a loss of USD 53 million and USD 134 million before tax for the years ended December 31, 2011 and 2010, respectively, as an offset to the foreign currency revaluation on the underlying hedged debt.

A loss of USD 13 million and a gain of USD 10 million for the years ended December 31, 2011 and 2010, respectively, was recognized in net capital gains/(losses) and impairments due to ineffectiveness of a hedge and changes in the time value of the option.

8. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts

Reserves for insurance contracts

Table 8.1

in USD millions, as of December 31	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
Reserves for losses and loss adjustment expenses	67,525	68,107	(12,401)	(12,093)	55,124	56,014
Reserves for unearned premiums	16,567	16,081	(2,332)	(2,185)	14,235	13,895
Future life policyholders' benefits	79,314	79,315	(2,572)	(2,423)	76,742	76,891
Policyholders' contract deposits and other funds	18,251	17,430	(2,181)	(2,246)	16,070	15,184
Reserves for unit-linked contracts	59,154	61,786	–	–	59,154	61,786
Total reserves for insurance contracts[1]	**240,811**	**242,719**	**(19,486)**	**(18,949)**	**221,325**	**223,770**

[1] The total reserves for insurance contracts ceded are gross of allowance for uncollected amounts of USD 125 million and USD 132 million as of December 31, 2011 and December 31, 2010, respectively.

Development of reserves for losses and loss adjustment expenses

Table 8.2

in USD millions	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1	68,107	68,126	(12,093)	(12,182)	56,014	55,944
Losses and loss adjustment expenses incurred:						
Current year	28,497	28,929	(4,755)	(3,930)	23,742	24,999
Prior years	(1,650)	(1,831)	347	452	(1,302)	(1,378)
Total incurred	26,847	27,098	(4,408)	(3,478)	22,439	23,620
Losses and loss adjustment expenses paid:						
Current year	(10,777)	(11,573)	959	1,049	(9,817)	(10,524)
Prior years	(16,133)	(15,167)	3,041	2,451	(13,092)	(12,716)
Total paid	(26,910)	(26,740)	4,000	3,500	(22,909)	(23,240)
Acquisitions/(divestments) and transfers[1]	154	(18)	(5)	6	149	(12)
Foreign currency translation effects	(674)	(359)	106	61	(568)	(298)
As of December 31	**67,525**	**68,107**	**(12,401)**	**(12,093)**	**55,124**	**56,014**

[1] The 2011 net movement mainly included reserves for losses and loss adjustments expenses acquired with MAA and Compagnie Libanaise d'Assurances SAL of USD 170 million, partly offset by USD (21) million due to the reclassification to held for sale of the Group's operations in Bolivia (see note 5).

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

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

Table 8.2 shows the development of reserves for losses and loss adjustment expenses during the year. The decrease of USD 890 million in total net reserves includes USD 1,302 million of favorable reserve development emerging from reserves established in prior years. Gross of reinsurance, the favorable development was USD 1,650 million. This favorable development was primarily attributable to the General Insurance business and breaks down into many individual movements by market-facing business, country, line of business, and accident year.

In Global Corporate, favorable development of USD 402 million was primarily driven by Europe and North America. In Europe, general liability and property contributed the most while in North America, the change in prior year estimates came from many lines of business with the exception of workers compensation.

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North America Commercial favorable development of USD 458 million arose mostly from medical malpractice, general liability, directors and officers, errors and omissions, direct markets and surety business.

Favorable development in Europe of USD 186 million resulted primarily from favorable experience in Switzerland of USD 365 million, mostly in motor, while most other countries reported small favourable amounts. On the other hand, Germany reported USD 242 million of adverse development, driven by the medical and professional liability lines of business.

The remaining favorable development emerged from Group Reinsurance, International Markets, and the assumed business from the Farmers Exchanges.

Development of insurance losses, net

Table 8.3

in USD millions, as of December 31	2002	2003	2004	2005	2006	2007	2008	2009	2010	**2011**
Gross reserves for losses and loss adjustment expenses	45,306	51,068	57,765	60,425	64,535	67,890	65,218	68,126	68,107	67,525
Reinsurance recoverable	(14,940)	(14,055)	(14,279)	(14,231)	(13,722)	(13,179)	(12,232)	(12,182)	(12,093)	(12,401)
Initial net reserves for losses and loss adjustment expenses	30,366	37,013	43,486	46,194	50,814	54,712	52,986	55,944	56,014	55,124
Cumulative paid as of December 31:										
One year later	*(8,923)*	*(9,930)*	*(9,464)*	*(11,423)*	*(11,237)*	*(12,551)*	*(13,047)*	*(12,716)*	(13,092)	
Two years later	*(14,472)*	*(15,550)*	*(16,273)*	*(18,044)*	*(18,362)*	*(19,660)*	*(19,909)*	*(19,821)*		
Three years later	*(18,001)*	*(20,407)*	*(21,234)*	*(23,077)*	*(23,421)*	*(24,428)*	*(24,693)*			
Four years later	*(21,390)*	*(23,941)*	*(24,945)*	*(26,850)*	*(26,839)*	*(27,735)*				
Five years later	*(23,814)*	*(26,616)*	*(27,798)*	*(29,425)*	*(29,224)*					
Six years later	*(25,799)*	*(28,668)*	*(29,810)*	*(31,189)*						
Seven years later	*(27,442)*	*(30,245)*	*(31,148)*							
Eight years later	*(28,672)*	*(31,274)*								
Nine years later	*(29,482)*									
Cumulative incurred as of December 31:										
One year later	*1,873*	*1,964*	*141*	*(218)*	*(1,219)*	*(1,271)*	*(1,059)*	*(1,378)*	(1,302)	
Two years later	*4,105*	*3,400*	*1,520*	*(367)*	*(2,171)*	*(2,152)*	*(2,350)*	*(2,565)*		
Three years later	*5,752*	*4,991*	*1,839*	*(897)*	*(2,686)*	*(2,844)*	*(3,048)*			
Four years later	*7,325*	*5,241*	*1,808*	*(945)*	*(3,003)*	*(3,533)*				
Five years later	*7,514*	*5,457*	*2,118*	*(1,044)*	*(3,438)*					
Six years later	*7,916*	*6,004*	*2,194*	*(1,184)*						
Seven years later	*8,585*	*6,094*	*2,254*							
Eight years later	*8,719*	*6,223*								
Nine years later	*8,819*									
Net reserves re-estimated as of December 31:										
One year later	*32,239*	*38,977*	*43,627*	*45,976*	*49,594*	*53,441*	*51,927*	*54,565*	54,711	
Two years later	*34,471*	*40,413*	*45,006*	*45,827*	*48,642*	*52,559*	*50,637*	*53,379*		
Three years later	*36,118*	*42,004*	*45,325*	*45,297*	*48,127*	*51,868*	*49,939*			
Four years later	*37,691*	*42,254*	*45,294*	*45,249*	*47,811*	*51,179*				
Five years later	*37,880*	*42,470*	*45,604*	*45,150*	*47,376*					
Six years later	*38,282*	*43,017*	*45,680*	*45,010*						
Seven years later	*38,951*	*43,107*	*45,740*							
Eight years later	*39,085*	*43,236*								
Nine years later	*39,185*									
Cumulative (deficiency)/ redundancy of net reserves	(8,819)	(6,223)	(2,254)	1,184	3,438	3,533	3,048	2,565	1,302	
Cumulative (deficiency)/ redundancy as a percentage of initial net reserves	(29.0%)	(16.8%)	(5.2%)	2.6%	6.8%	6.5%	5.8%	4.6%	2.3%	
Gross reserves re-estimated as of December 31, 2011	57,201	59,768	61,192	59,867	60,585	63,437	61,281	64,538	66,458	
Cumulative (deficiency)/ redundancy of gross reserves	(11,895)	(8,700)	(3,427)	558	3,950	4,453	3,937	3,588	1,650	
Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves	(26.3%)	(17.0%)	(5.9%)	0.9%	6.1%	6.6%	6.0%	5.3%	2.4%	

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Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Group established in 2002 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. Similarly, the cumulative incurred losses section details the sum of the cumulative paid amounts shown in the triangle above and the changes in loss reserves since the end of each financial year. The net reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2011. It is the difference between the initial net reserve estimate and the last entry of the diagonal. Conditions and trends that have affected the development of reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.3.

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

Table 8.4

in USD millions		2011		2010
	Gross	Net	Gross	Net
Asbestos				
As of January 1	3,408	2,863	3,604	2,998
Losses and loss adjustment expenses incurred	42	79	35	34
Losses and loss adjustment expenses paid	(159)	(125)	(138)	(90)
Foreign currency translation effects	(8)	(8)	(94)	(79)
As of December 31	**3,283**	**2,810**	**3,408**	**2,863**
Environmental				
As of January 1	290	223	280	242
Losses and loss adjustment expenses incurred	31	20	61	20
Losses and loss adjustment expenses paid	(41)	(38)	(51)	(38)
Foreign currency translation effects	1	–	1	–
As of December 31	**282**	**206**	**290**	**223**

The Group has considered asbestos, environmental and latent injury claims and claims expenses in establishing the reserves for losses and loss adjustment expenses. The Group continues to be advised of claims asserting injuries from toxic waste, hazardous materials and other environmental pollutants, alleged damages to cover the clean-up costs of hazardous waste dump sites relating to policies written in prior years and indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, together with increased medical diagnostic capabilities and awareness have often caused actual loss development to exhibit more variation than in other lines. Such claims require specialized reserving techniques and the uncertainty of the ultimate cost of these types of claims has tended to be greater than the uncertainty relating to standard lines of business.

Reserves for asbestos claims decreased by USD 125 million gross and USD 53 million net, and by USD 196 million gross and USD 135 million net during the years ended December 31, 2011 and 2010, respectively. In both years the decrease was mainly driven by the re-estimation of the ultimate liability for asbestos as well as the normal payout of claims. During 2011, this was partially offset by the increase in UK gross and net reserves following a court ruling in Scotland and Northern Ireland related to the impact of pleural plaques losses. In addition, the 2010 decrease included the impact of the strengthening of the U.S. dollar, as a significant portion of the Group's reserves is held in British pounds.

Reserves for environmental claims decreased by USD 8 million gross and USD 17 million net, and increased by USD 10 million gross but decreased by USD 19 million net during the years ended December 31, 2011 and 2010, respectively. For the year ended December 31, 2010, the difference in gross and net movements is explained by the increase in ceded reserves, largely the result of the re-estimation of reserves in North America.

While the Group believes that it has made adequate provision for these claims, it is possible that future adverse development could have a material effect on the Group's results of operations, cash flows and financial position. The net reserve amounts relating to such claims are not discounted for the time value of money.

Development of future life policyholders' benefits

Table 8.5

in USD millions	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1	79,315	79,271	(2,423)	(2,199)	76,891	77,072
Premiums	8,736	9,447	(511)	(534)	8,225	8,913
Claims	(10,463)	(10,138)	426	378	(10,036)	(9,760)
Fee income and other expenses	(2,072)	(1,689)	87	118	(1,985)	(1,571)
Interest and bonuses credited to policyholders	3,257	2,650	(161)	(70)	3,096	2,580
Change in assumptions	423	234	(23)	(64)	400	170
Acquisitions/transfers[1]	1,546	1,296	5	(95)	1,550	1,201
(Decreases)/increases recorded in other comprehensive income	252	(8)	–	–	252	(8)
Foreign currency translation effects	(1,679)	(1,749)	29	43	(1,651)	(1,706)
As of December 31	**79,314**	**79,315**	**(2,572)**	**(2,423)**	**76,742**	**76,891**

[1] The 2011 net movement mainly included reclassifications of USD 212 million transferred from other liabilities to future life policyholders' benefits, partly offset by USD (27) million transferred to liabilities for investment contracts (see note 1). Additionally, it included the future life policyholders' benefits acquired with MAA (see note 5) of USD 1,361 million. The 2010 net movement included USD 2,730 million related to the transfer to other reserves categories and USD (1,508) million related to loss of control in Caixa Sabadell (see note 5).

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

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

The net impact of changes in assumptions on net future life policyholders' benefits was USD 400 million and USD 170 million for the years ended December 31, 2011 and 2010, respectively. The net changes include the following significant movements:

Effect of changes in assumptions for future life policyholders' benefits

Table 8.6

in USD millions, for the year ended December 31	**2011**	2010
Interest rates	451	216
Longevity	(1)	1
Changes in modelling	(4)	(10)
Expense	(12)	4
Lapses	(29)	6
Morbidity	(38)	(7)
Investment return	(63)	(27)
Other	96	(13)
Net impact of changes in assumptions	**400**	**170**

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Policyholders' contract deposits and other funds gross

Table 8.7

in USD millions, as of December 31	**2011**	2010
Annuities	1,320	1,293
Universal life and other contracts	11,577	11,164
Policyholder dividends	5,355	4,973
Total	**18,251**	**17,430**

Development of policyholders' contract deposits and other funds

Table 8.8

in USD millions	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1	17,430	18,857	(2,246)	(2,457)	15,184	16,400
Premiums	1,395	2,028	(60)	(90)	1,335	1,938
Claims	(1,421)	(1,861)	195	261	(1,225)	(1,601)
Fee income and other expenses	(344)	(360)	7	14	(337)	(347)
Interest and bonuses credited to policyholders	628	993	(79)	(82)	549	912
Changes in assumptions	91	(3)	–	–	91	(3)
Acquisitions/transfers[1]	266	(1,847)	–	100	266	(1,746)
(Decrease)/increase recorded in other comprehensive income	477	(185)	–	–	477	(185)
Foreign currency translation effects	(271)	(191)	2	7	(268)	(184)
As of December 31	**18,251**	**17,430**	**(2,181)**	**(2,246)**	**16,070**	**15,184**

[1] The 2011 net movement mainly included an increase for policyholders' contract deposits and other funds acquired with MAA (see note 5) of USD 268 million. The 2010 net movement included decreases for the transfer to other reserves categories of USD (1,733) and a decrease of USD (7) million related to loss of control in Caixa Sabadell (see note 5).

Development of reserves for unit-linked contracts

Table 8.9

in USD millions	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
As of January 1	61,786	58,204	–	–	61,786	58,204
Premiums	9,263	8,377	–	(3)	9,263	8,374
Claims	(8,384)	(6,629)	–	4	(8,384)	(6,625)
Fee income and other expenses	(1,689)	(1,496)	–	(1)	(1,689)	(1,497)
Interest and bonuses credited/(charged) to policyholders	(1,274)	5,395	–	–	(1,274)	5,395
Acquisitions/transfers[1]	80	(143)	–	–	80	(143)
Foreign currency translation effects	(628)	(1,922)	–	–	(628)	(1,922)
As of December 31	**59,154**	**61,786**	**–**	**–**	**59,154**	**61,786**

[1] The 2011 net movement mainly included a reclassification of USD 119 million from liabilities for investment contracts to reserves for unit-linked contracts, partly offset by a reclassification of USD (259) million to liabilities for investment contracts (see note 1). Additionally, it included the reserves for unit-linked insurance contracts acquired with MAA (see note 5) of USD 223 million. The 2010 net movement included USD (12) million related to the transfer to other reserves categories and USD (160) million related to loss of control in Caixa Sabadell (see note 5).

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

Liabilities for investment contracts

Table 9.1 in USD millions, as of December 31	2011	2010
Liabilities related to unit-linked investment contracts	44,220	44,941
Liabilities related to investment contracts (amortized cost)	834	592
Liabilities related to investment contracts with DPF	5,607	5,134
Total	**50,661**	**50,667**

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

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

Development of liabilities for investment contracts

Table 9.2 in USD millions	2011	2010
As of January 1	50,667	46,124
Premiums	7,934	7,963
Claims	(5,762)	(5,478)
Fee income and other expenses	(573)	(692)
Interest and bonuses charged/(credited) to policyholders	(1,431)	5,267
Transfers[1]	543	(892)
Increase/(decrease) recorded in other comprehensive income	(6)	(35)
Foreign currency translation effects	(712)	(1,590)
As of December 31	**50,661**	**50,667**

[1] The 2011 movement mainly included USD 259 million transferred from reserves for unit-linked contracts to liabilities for investment contracts, USD 246 million transferred from other liabilities to liabilities for investment contracts, USD 137 million transferred from non-technical provisions and USD 27 million transferred from future life policyholders' benefits to liabilities for investment contracts, partly offset by USD (119) million transferred from liabilities for investment contracts to reserves for unit-linked contracts (see note 1). The 2010 movement mainly included a decrease of net USD (884) million related to the net transfer to and from reserves for insurance contracts.

10. Equity component relating to contracts with DPF

Certain investment and insurance contracts sold by the Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the Group. Where that discretion has not been exercised, the total amount of undeclared funds surplus is included in other comprehensive income. Mandated allocations related to unrealized results and earnings are included in policyholder liabilities and, upon declaration, discretionary bonuses are allocated to policyholders. The changes in the table below represent the increase or decrease in unallocated gains and retained earnings after charging discretionary bonuses to policyholder liabilities.

Development of the equity component relating to contracts with DPF

Table 10 in USD millions	2011	2010
As of January 1	2,168	1,837
Net unrealized (losses)/gains on investments	(676)	(39)
Current period profit	5	194
Foreign currency translation effects	(9)	176
As of December 31	**1,488**	**2,168**

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11. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 11.1

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
Losses and loss adjustment expenses	26,847	27,098	(4,408)	(3,478)	22,439	23,620
Life insurance death and other benefits	11,366	11,004	(462)	(456)	10,904	10,548
Change in future life policyholders' benefits	(107)	488	(182)	(172)	(289)	316
Total insurance benefits and losses	**38,106**	**38,591**	**(5,052)**	**(4,106)**	**33,054**	**34,484**

Policyholder dividends and participation in profits

Table 11.2

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
Change in policyholders' contract deposits and other funds	643	809	–	(4)	643	805
Change in reserves for unit-linked products	(1,826)	5,287	–	–	(1,826)	5,287
Change in liabilities for investment contracts – unit-linked	(1,801)	4,830	–	–	(1,801)	4,830
Change in liabilities for investment contracts – other	224	215	–	–	224	215
Change in unit-linked liabilities related to UK capital gains tax	75	(337)	–	–	75	(337)
Total policyholder dividends and participation in profits	**(2,685)**	**10,805**	**–**	**(4)**	**(2,685)**	**10,801**

Underwriting and policy acquisition costs

Table 11.3

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
Amortization of deferred acquisition costs	5,365	5,365	(506)	(439)	4,860	4,926
Amortization of deferred origination costs	135	119	–	–	135	119
Commissions and other underwriting and acquisition expenses[1]	3,809	3,865	(280)	(261)	3,529	3,604
Total underwriting and policy acquisition costs	**9,309**	**9,349**	**(786)**	**(700)**	**8,523**	**8,649**

[1] Net of additions related to deferred acquisition and origination costs.

Change in reserves for unearned premiums

Table 11.4

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2011	2010	**2011**	2010	**2011**	2010
Change in reserves for unearned premiums	**932**	**(1,019)**	**(181)**	**(215)**	**751**	**(1,234)**

12. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 12.1

in USD millions	General Insurance		Global Life		Other segments[1]		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
As of January 1	3,426	3,339	12,686	12,276	169	531	16,281	16,146
Acquisition costs deferred	3,100	2,939	1,909	1,780	714	815	5,723	5,533
Amortization	(2,991)	(2,877)	(1,339)	(873)	(530)	(1,176)	(4,860)	(4,926)
Amortization charged/ (credited) to other comprehensive income	–	–	(21)	(74)	–	–	(21)	(74)
Transfers	–	(1)	–	–	–	–	–	(1)
Foreign currency translation effects	(35)	26	(224)	(424)	–	(1)	(259)	(398)
As of December 31	**3,500**	**3,426**	**13,011**	**12,686**	**353**	**169**	**16,864**	**16,281**

[1] Net of eliminations from inter-segment transactions.

Development of deferred origination costs

Table 12.2

in USD millions	**2011**	2010
As of January 1	866	856
Origination costs deferred	101	142
Amortization	(135)	(119)
Foreign currency translation effects	(9)	(13)
As of December 31	**824**	**866**

As of December 31, 2011 and 2010, deferred policy acquisition costs and deferred origination costs related to non-controlling interests were USD 347 million and USD 355 million, respectively.

13. Administrative and other operating expenses

Administrative and other operating expenses

Table 13

in USD millions, for the years ended December 31	**2011**	2010
Wages and salaries	3,276	3,055
Other employee benefits	565	410
Amortization and impairments of intangible assets	805	882
Depreciation and impairments of property and equipment	191	205
Rent, leasing and maintenance	453	389
Marketing costs	209	201
Life recurrent commission	386	348
Asset and other non-income taxes	58	44
IT costs	804	691
Litigation and settlement costs	77	646
Restructuring costs	222	111
Foreign currency translation	(157)	(159)
Other	1,380	1,153
Total	**8,270**	**7,976**

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

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14. Farmers management fees and other related revenues

Farmers management fees and other related revenues

Table 14

in USD millions, for the years ended December 31	2011	2010
Farmers management fees and other related revenues	**2,767**	**2,778**

Farmers Group, Inc. and its subsidiaries (FGI) through its attorney-in-fact (AIF) relationship with the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group, is contractually permitted to receive a management fee of 20 percent (25 percent in the case of the Fire Insurance Exchange) of the gross premiums earned by the Farmers Exchanges.

FGI has historically charged a lower management fee than the amount allowed by contract. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 18,149 million and USD 18,311 million for the years ended December 31, 2011 and 2010, respectively.

15. Mortgage loans given as collateral and collateralized loans

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

Impairment charges of USD 1 million on mortgage loans given as collateral were recorded in income for the year ended December 31, 2010. There were no impairment charges in 2011.

The table below shows the maturity schedule of collateralized loans as of December 31, 2011 and 2010, respectively.

Maturity schedule - collateralized loans

Table 15

in USD millions, as of December 31	2011		2010	
	Carrying value[1]	**Undiscounted cash flow**[2]	Carrying value[1]	Undiscounted cash flow[2]
< 1 year	113	113	391	389
1 to 2 years	–	–	145	145
2 to 3 years	42	42	9	9
3 to 4 years	12	12	52	51
4 to 5 years	2	2	12	12
> 5 years	54	54	133	133
Total	**223**	**223**	**743**	**739**

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

16. Property and equipment

Table 16.1

Property and equipment – current period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2011	352	1,201	471	582	828	3,435
Less: accumulated depreciation/impairments	(1)	(424)	(364)	(486)	(471)	(1,745)
Net carrying value as of January 1, 2011	352	777	107	96	357	1,689
Additions and improvements	–	7	51	48	93	199
Acquisitions[1]	18	63	3	–	1	86
Disposals	(5)	(10)	(1)	(1)	(33)	(50)
Transfers	(37)	(86)	33	(2)	(47)	(139)
Depreciation and impairments	(1)	(33)	(41)	(45)	(71)	(191)
Foreign currency translation effects	(3)	(8)	(2)	(1)	(1)	(15)
Net carrying value as of December 31, 2011	**325**	**709**	**152**	**95**	**299**	**1,579**
Plus: accumulated depreciation/impairments	–	348	423	464	395	1,630
Gross carrying value as of December 31, 2011	**325**	**1,057**	**575**	**559**	**694**	**3,209**

[1] Related to the acquisition of Malaysian Assurance Alliance Bhd (see note 5).

Table 16.2

Property and equipment – prior period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2010	364	1,249	475	871	794	3,754
Less: accumulated depreciation/impairments	–	(422)	(364)	(604)	(422)	(1,811)
Net carrying value as of January 1, 2010	364	828	111	267	371	1,942
Additions and improvements	–	33	21	40	88	182
Disposals	(5)	(15)	(1)	(167)	(22)	(210)
Transfers	(19)	(48)	–	16	(2)	(53)
Depreciation and impairments	(1)	(35)	(25)	(63)	(81)	(205)
Foreign currency translation effects	12	13	2	2	4	33
Net carrying value as of December 31, 2010	**352**	**777**	**107**	**96**	**357**	**1,689**
Plus: accumulated depreciation/impairments	1	424	364	486	471	1,745
Gross carrying value as of December 31, 2010	**352**	**1,201**	**471**	**582**	**828**	**3,435**

The fire insurance value of the Group's own-use property and equipment totaled USD 2,917 million and USD 3,344 million as of December 31, 2011 and 2010, respectively.

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17. Goodwill and other intangible assets

Intangible assets – current period

Table 17.1

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2011	2,241	2,528	2,607	1,025	3,967	195	12,563
Less: accumulated amortization/impairments	(136)	(1,622)	(326)	–	(2,344)	(76)	(4,505)
Net carrying value as of January 1, 2011	2,104	906	2,281	1,025	1,623	119	8,059
Additions and transfers	51	24	74	–	560	1	710
Divestments and transfers[1]	(12)	–	–	–	–	–	(12)
Amortization	–	(114)	(127)	–	(432)	(14)	(686)
Amortization charged to other comprehensive income	–	82	–	–	–	–	82
Impairments	–	–	–	–	(119)	–	(119)
Foreign currency translation effects	(84)	(19)	(79)	–	(15)	(2)	(200)
Net carrying value as of December 31, 2011	**2,060**	**879**	**2,149**	**1,025**	**1,616**	**104**	**7,834**
Plus: accumulated amortization/impairments	126	1,640	430	–	2,593	86	4,876
Gross carrying value as of December 31, 2011	**2,186**	**2,519**	**2,579**	**1,025**	**4,210**	**190**	**12,709**

[1] The reduction in Goodwill is mainly a result of a revised earn-out calculation within one of the Group's Spanish General Insurance operations and the classifications as held for sale of the Group's operation in Bolivia.

As of December 31, 2011, the intangible assets related to non-controlling interests were USD 127 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 979 million for distribution agreements and USD 5 million for software. Caja de Ahorros y Monte de Piedad de Navarra (Caja Navarra), one of the distribution partners, merged all its assets and liabilities into Banca Civica in June 2011. The Group is continuing to review and assess, as details emerge, the effects of this merger and of related industry developments on the determination of its control over this investment and its distribution agreement amounting to USD 141 million gross of non-controlling interests.

Additions to goodwill of USD 33 million related to the acquisition of Compagnie Libanaise d'Assurances SAL. The acquisition of several smaller companies generated a further USD 12 million of goodwill and earn-out payments to Deutsche Bank Group for the acquisition of Zurich Life and Pensions S.p.A. Italy (formerly DWS Vita S.p.A.) increased goodwill by USD 6 million.

Extensions of existing distribution agreements resulted in net additions of USD 28 million in the Life insurance operations in Italy, USD 14 million in the General insurance operations in Turkey and USD 5 million in the Life insurance operations in Spain. New distribution agreements to gain access to the mass consumer market in Brazil added a further USD 28 million.

The decision to decentralize its Direct insurance efforts in the Group's General Insurance operations in Switzerland and Spain was the main driver of software impairments, as it resulted in USD 85 million charge for software which will no longer be used.

Intangible assets by segment – current period

Table 17.2

in USD millions, as of December 31, 2011	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	827	–	527	–	548	83	1,985
Global Life	413	879	1,622	–	372	21	3,308
Farmers	819	–	–	1,025	409	–	2,254
Other Operating Businesses	–	–	–	–	286	–	286
Non-Core Businesses	–	–	–	–	1	–	1
Net carrying value as of December 31, 2011	**2,060**	**879**	**2,149**	**1,025**	**1,616**	**104**	**7,834**

Intangible assets – prior period

Table 17.3

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2010	2,331	2,749	3,426	1,025	3,430	224	13,186
Less: accumulated amortization/impairments	(34)	(1,612)	(251)	–	(1,861)	(85)	(3,844)
Net carrying value as of January 1, 2010	2,297	1,137	3,174	1,025	1,569	139	9,342
Additions and transfers	(2)	–	–	–	561	5	565
Divestments and transfers[1]	(49)	(87)	(560)	–	(19)	–	(714)
Amortization	–	(107)	(136)	–	(384)	(15)	(643)
Amortization charged to other comprehensive income	–	22	–	–	–	–	22
Impairments	(104)	(3)	–	–	(126)	(5)	(239)
Foreign currency translation effects	(38)	(55)	(198)	–	22	(4)	(274)
Net carrying value as of December 31, 2010	**2,104**	**906**	**2,281**	**1,025**	**1,623**	**119**	**8,059**
Plus: accumulated amortization/impairments	136	1,622	326	–	2,344	76	4,505
Gross carrying value as of December 31, 2010	**2,241**	**2,528**	**2,607**	**1,025**	**3,967**	**195**	**12,563**

[1] The reduction in Goodwill is a result of a revised earn-out calculation within one of the Group's Spanish General Insurance operations and the impact of loss of control in Futuro de Bolivia S.A. Administradora de Fondos de Pensiones (see note 5). The decreases in PVFP and distributions agreements represent the impact of loss of control in Ciaxa Sabadell (see note5).

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As of December 31, 2010, the intangible assets related to non-controlling interests were USD 145 million from present value of future profits (PVFP) of acquired insurance contracts, USD 1,055 million from distribution agreements and USD 6 million from software.

As part of its annual impairment testing the Group has compared the carrying amount of its intangible assets with the recoverable amount, generally based on a value-in-use calculation. Based on management's best estimate and after taking into consideration sensitivity analysis of the current conditions, an impairment of USD 104 million has been recorded for the goodwill of the General Insurance operations in Russia.

The decision to decentralize its Direct insurance efforts in the Group's General Insurance operations in Europe resulted in an impairment of USD 114 million for software which will no longer be used.

Table 17.4

Intangible assets by segment – prior period

in USD millions, as of December 31, 2010	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	869	–	538	–	576	94	2,077
Global Life	411	906	1,742	–	348	25	3,433
Farmers	819	–	–	1,025	428	–	2,273
Other Operating Businesses	5	–	–	–	268	–	273
Non-Core Businesses	–	–	–	–	2	–	2
Net carrying value as of December 31, 2010	**2,104**	**906**	**2,281**	**1,025**	**1,623**	**119**	**8,059**

18. Receivables and other assets

Receivables and other assets

Table 18

in USD millions, as of December 31	2011	2010
Financial assets		
Derivative assets	2,126	1,777
Receivables from policyholders	2,957	3,042
Receivables from insurance companies, agents and intermediaries	5,495	5,343
Receivables arising from ceded reinsurance	1,155	1,195
Reverse repurchase agreements	814	1,171
Amounts due from investment brokers	321	395
Other receivables	1,880	2,371
Allowance for impairments[1]	(320)	(323)
Other assets	134	132
Non-financial assets		
Current tax receivables	789	740
Accrued premiums	684	748
Prepaid expenses	286	254
Prepaid insurance benefits	432	441
Other assets	404	385
Assets related to Santander insurance operations in Latin America[2]	15,611	–
Total receivables and other assets	**32,766**	**17,671**

[1] Allowance for impairments includes USD 81 million and USD 101 million as of December 31, 2011 and 2010, respectively, for receivables arising from ceded reinsurance.

[2] See note 5.

Receivables are carried at notional amounts, and are generally settled within one year. The notional and fair value amounts do not vary significantly.

19. Other liabilities

Other liabilities

Table 19.1

in USD millions, as of December 31	2011	2010
Other financial liabilities		
Derivative liabilities	700	1,005
Amounts due to reinsurers, agents and other insurance companies	2,076	2,041
Amounts due to investment brokers	1,399	1,059
Amounts due to life policyholders	639	668
Liabilities for cash collateral received for securities lending	159	485
Deposits from banking activities	815	1,559
Liabilities for defined benefit plans	2,905	1,779
Other liabilities for employee benefit plans	109	112
Other liabilities	6,231	6,583
Other non-financial liabilities		
Current tax payables	779	850
Restructuring provisions	254	155
Premium prepayments and other advances	869	957
Other liabilities	1,192	1,141
Liabilities related to Santander insurance operations in Latin America[1]	13,191	–
Total other liabilities	**31,317**	**18,396**

[1] See note 5.

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Table 19.2 shows the maturity schedule of other financial liabilities as of December 31, 2011 and 2010, respectively.

Table 19.2

Maturity schedule – other financial liabilities[1]

in USD millions, as of December 31	2011		2010	
	Carrying value[2]	**Undiscounted cash flow**[3]	Carrying value[2]	Undiscounted cash flow[3]
< 1 year	10,437	10,429	10,842	10,853
1 to 2 years	376	387	748	775
2 to 3 years	116	118	301	313
3 to 4 years	183	196	283	292
4 to 5 years	114	115	172	180
> 5 years	900	1,107	1,167	2,220
Total	**12,126**	**12,354**	**13,513**	**14,634**

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

Table 19.3

Restructuring provisions

in USD millions	2011	2010
As of January 1	155	119
Provisions made during the period	223	111
Provisions used during the period	(112)	(77)
Provisions reversed during the period	(2)	–
Foreign currency translation effects	(11)	2
As of December 31	**254**	**155**

During the year ended December 31, 2011 the Group initiated several restructuring programs, recording a total charge to income of USD 176 million. A further USD 45 million was recorded in respect of restructuring programs initiated in prior years. The main restructuring program impacted several European countries within the General Insurance operations with estimated costs of USD 112 million. In addition, the Group recorded USD 85 million of software impairments as outlined in note 17.

During the year ended December 31, 2010, the Group entered into several restructuring programs, recording a total charge to income of USD 62 million. A further USD 49 million was recorded in respect of restructuring programs initiated in prior years. The largest restructuring program was initiated as part of the new strategy of the Group's General Insurance business. The UK Direct operations are now integrated into the UK business to create operational synergies and the focus of the Direct insurance efforts are on Germany, Italy and Switzerland. The related restructuring costs amounted to USD 20 million. In addition, the Group recorded USD 114 million of software impairments as outlined in note 17.

20. Income taxes

Income tax expense – current/deferred split

Table 20.1 in USD millions, for the years ended December 31	2011	2010
Current	1,099	1,128
Deferred	(134)	227
Total income tax expense	**965**	**1,355**

Income tax expense – policyholder/shareholder attribution

Table 20.2 in USD millions, for the years ended December 31	2011	2010
Total income tax expense/(benefit) attributable to policyholders	(242)	462
Total income tax expense attributable to shareholders	1,206	894
Total income tax expense	**965**	**1,355**

The Group is required to record taxes on policyholder earnings for life insurance policyholders in certain jurisdictions. Accordingly, the income tax expense or benefit attributable to these life insurance policyholder earnings is included in income tax expense. In certain jurisdictions an accrual for future policy fees that will cover the tax charge is included in insurance benefits and losses.

Expected and actual income tax expense

Table 20.3 in USD millions, for the years ended December 31	Rate	2011	Rate	2010
Net income before income taxes		4,757		4,862
Less: income tax (expense)/benefit attributable to policyholders		242		(462)
Net income before income taxes attributable to shareholders		4,998		4,400
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,100	22.0%	968
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*240*		57
Tax exempt and lower taxed income		*(82)*		(119)
Non-deductible expenses		*75*		63
Tax losses previously unrecognized or no longer recognized		*5*		33
Prior year adjustments and other		*(131)*		(109)
Actual income tax expense attributable to shareholders	24.1%	1,206	20.3%	894
Plus: income tax expense/(benefit) attributable to policyholders		(242)		462
Actual income tax expense	**20.3%**	**965**	**27.9%**	**1,355**

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

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Current tax receivables and payables

Table 20.4

in USD millions, as of December 31	2011	2010
Current tax receivables	789	740
Current tax payables	(779)	(850)
Net current tax receivables/(payables)	**10**	**(110)**

Deferred tax assets and liabilities

Table 20.5

in USD millions, as of December 31	2011	2010
Deferred tax assets	2,076	2,067
Deferred tax liabilities	(4,049)	(4,554)
Net deferred tax liabilities	**(1,973)**	**(2,487)**

Development of net deferred tax liabilities

Table 20.6

in USD millions	2011	2010
As of January 1	(2,487)	(1,990)
Net change recognized in the income statement	134	(227)
Net change recognized in equity	376	(488)
Net changes due to acquisitions/(divestments)	(19)	198
Foreign currency translation effects	23	20
As of December 31	**(1,973)**	**(2,487)**

The cumulative amount of deferred tax credited to shareholders' equity, net of foreign currency translation effects, amounted to USD 404 million and USD 28 million for the years ended December 31, 2011 and 2010, respectively.

The net deferred tax liabilities related to non-controlling interests amounted to USD 324 million and USD 348 million for the years ended December 31, 2011 and 2010, respectively.

Deferred taxes – policyholder/shareholder attribution

Table 20.7

in USD millions, as of December 31	2011	2010
Net deferred tax liabilities attributable to policyholders	(154)	(473)
Net deferred tax liabilities attributable to shareholders	(1,819)	(2,014)
Net deferred tax liabilities	**(1,973)**	**(2,487)**

Deferred tax assets/(liabilities) analysis by source

Table 20.8

in USD millions, as of December 31	2011		2010	
	Assets	**Liabilities**	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	24	(655)	26	(618)
Depreciable and amortizable assets	30	(73)	33	(38)
Life policyholders' benefits and deposits[1]	96	(49)	34	(13)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	410	(522)	328	(452)
Accruals & deferred income	191	(2)	207	(4)
Reserves for losses and loss adjustment expenses	457	(4)	511	(2)
Reserves for unearned premiums	729	(61)	720	–
Pensions and other employee benefits	541	–	381	–
Other assets/liabilities	756	(296)	723	(207)
Tax loss carryforwards	617	–	505	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,851	(1,662)	3,468	(1,335)
Valuation allowance	(113)	–	(66)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,738	(1,662)	3,401	(1,335)
Deferred tax assets	**2,076**		**2,067**	
Deferred acquisition and origination costs	76	(2,592)	90	(2,784)
Depreciable and amortizable assets	143	(1,877)	147	(2,023)
Life policyholders' benefits and deposits[1]	955	(777)	808	(722)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	303	(1,075)	249	(1,019)
Accruals & deferred income	109	(169)	120	(169)
Reserves for losses and loss adjustment expenses	109	(268)	109	(355)
Reserves for unearned premiums	39	(64)	34	(96)
Deferred front-end fees	634	–	717	–
Pensions and other employee benefits	457	(37)	344	(43)
Other assets/liabilities	866	(1,071)	829	(972)
Tax loss carryforwards	203	–	173	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,892	(7,930)	3,619	(8,162)
Valuation allowance	(12)	–	(11)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,880	(7,930)	3,608	(8,162)
Deferred tax liabilities		**(4,049)**		**(4,554)**
Net deferred tax liabilities		**(1,973)**		**(2,487)**

[1] Includes reserves for unit-linked contracts.

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

As of December 31, 2011 and 2010 the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized amount to approximately USD 21 billion and UDS 19 billion, respectively. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

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Tax losses carryforwards and tax credits

Table 20.9

in USD millions, as of December 31	2011	2010
For which deferred tax assets have been recognized, expiring		
< 5 years	170	358
5 to 20 years	1,208	1,360
> 20 years or with no time limitation	1,010	203
Subtotal	2,388	1,920
For which deferred tax assets have not been recognized, expiring		
5 to 20 years	169	180
> 20 years or with no time limitation	598	436
Subtotal	767	616
Total	**3,155**	**2,536**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 20.6 percent and 22.4 percent for the years 2011 and 2010, respectively.

The recoverability of the deferred tax asset for each taxpayer is based on the taxpayer's ability to utilize the deferred tax asset over a reasonable period of time. This analysis considers the projected taxable income to be generated by the taxpayer, as well as its ability to offset the deferred tax asset against deferred tax liabilities.

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income projections and believes that the carrying values of the deferred tax assets as of December 31, 2011, are recoverable.

21. Senior and subordinated debt

Senior and subordinated debt

Table 21.1

in USD millions, as of December 31		2011	2010
Senior debt			
Zurich Capital Markets	Various debt instruments payable within 1 year	–	400
Zurich Finance (USA), Inc.	3.50% CHF 300 million notes, due November 2011[1, 6]	–	322
	4.50% EUR 1 billion notes, due September 2014[2, 6, 7]	1,312	1,353
	4.875% EUR 800 million notes, due April 2012[1, 6]	1,037	1,069
	6.50% EUR 600 million notes, due October 2015[3, 6]	776	801
	Euro Commercial Paper Notes	400	–
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million notes, due September 2013[5, 6, 7]	764	765
Zurich Insurance Company Ltd	3.875% CHF 1 billion notes, due July 2011[6]	–	1,071
	3.75% CHF 500 million notes, due September 2013[6]	531	531
	2.25% CHF 500 million notes, due July 2017[6]	529	–
	2.875% CHF 250 million notes, due July 2021[6]	262	–
	2.375% CHF 525 million notes, due November 2018[6]	553	–
Zurich Santander Insurance America S.L.	7.5% EUR 182 million loan, due December 2035	236	–
Other	Various debt instruments payable in more than 1 year	141	141
Senior debt		6,541	6,453
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes[6]	184	190
	7.5% EUR 425 million notes, due July 2039[6]	547	564
	4.25% CHF 700 million perpetual notes[6]	735	736
	4.625% CHF 500 million perpetual notes[6]	525	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes[4, 6]	690	692
Zurich Finance (USA), Inc.	5.75% EUR 500 million notes, due October 2023[1, 6]	641	661
	4.5% EUR 500 million notes, due June 2025[5, 6, 7]	688	696
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065	674	673
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 million Trust Preferred Securities, due May 2062	250	250
ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067	497	497
Other	Various debt instruments payable in more than 1 year	44	44
Subordinated debt		5,476	5,004
Total senior and subordinated debt		**12,017**	**11,457**

[1] The bond is economically hedged, but hedge accounting treatment has not been applied.
[2] The bond is part of a qualifying cash flow hedge (80 percent of the total) and fair value hedge (20 percent of the total).
[3] The bond is part of a qualifying cash flow hedge (100 percent).
[4] The holders of these notes benefit from the Replacement Capital Covenant which states that if Series IV and V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trusts IV and V, are called before 2042 and 2047 respectively, the Group will issue a replacement debt instrument with terms and provisions that are as or more equity-like than the replaced notes.
[5] These bonds are part of qualifying fair value hedges (100 percent).
[6] Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).
[7] In 2011 the Group applied the cash flow hedge methodology to hedge the foreign currency exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge the interest rate exposure with changes in the fair value being recorded through the income statement.

None of the debt instruments listed above was in default as of December 31, 2011 and 2010, respectively.

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Senior and subordinated debt

To facilitate the issuance of debt, the Group has in place a Euro Medium Term Note Programme (EMTN Programme) allowing for the issuance of senior and subordinated notes up to a maximum of USD 18 billion. All issuances under this programme are either issued or guaranteed by Zurich Insurance Company Ltd. The Group has also issued debt instruments outside this programme when deemed appropriate.

i) Senior debt

Senior debt increased to USD 6,541 million as of December 31, 2011, from USD 6,453 million as of December 31, 2010. This was primarily due to three senior notes issued by Zurich Insurance Company Ltd under the EMTN Programme in July and November 2011 totaling CHF 1,275 million, and to the new issuance by Zurich Finance (USA), Inc. of USD 400 million commercial paper notes in October and December 2011 under the Group's new Euro Commercial Paper Programme.

These new issuances were almost fully offset by the repayments of USD 400 million commercial paper notes in July, 2011 by Zurich Capital Markets, the CHF 1 billion senior notes issued by Zurich Insurance Company Ltd, which matured on July 27, 2011 and the CHF 300 million senior notes issued by Zurich Finance (USA), Inc. which matured on November 23, 2011.

In addition, new long term debt of EUR 182 million was raised in November 2011 by a 51 percent owned subsidiary in connection with the Group entering into a 25-year strategic distribution arrangement in Latin America.

ii) Subordinated debt

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

Subordinated debt increased to USD 5,476 million as of December 31, 2011, from USD 5,004 million as of December 31, 2010, mainly as a result of a new CHF 500 million issue under the EMTN Programme in March 2011 to refinance the early redemption of hybrid debt that were classified as preferred securities in shareholders' equity as of December 31, 2010 and the translation effects of the U.S. dollar against the currencies in which the notes were issued.

Description and features of significant subordinated debt

Table 21.2

Description	Coupon conditions	Call/ redemption date	Redemption conditions
12.00% EUR 143 million, perpetual capital notes	12.00% payable annually up to July 15, 2014 and then reset quarterly to 3-month EURIBOR plus 10.33%.	Quarterly on or after July 15, 2014	Redeemable in whole at par plus any accrued interest.
7.5% EUR 425 million notes, due July 2039	7.5% payable annually up to July 24, 2019 and then reset quarterly to 3-month EURIBOR plus 5.85%.	Quarterly on or after July 24, 2019	Redeemable in whole or in part at par plus any accrued interest.
4.25% CHF 700 million, perpetual notes	4.25% payable annually up to May 26, 2016 and then reset quarterly to 3-month CHF-Libor plus 3.046%.	Quarterly on or after May 26, 2016	Redeemable in whole or in part at par plus any accrued interest.
4.625% CHF 500 million, perpetual notes	4.625% payable annually up to May 16, 2018 and then reset to the prevailing 7 year CHF mid swap rate plus 2.691%.	Annually on or after May 16, 2018	Redeemable in whole or in part at par plus any accrued interest.
6.625% GBP 450 million, perpetual notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest plus 2.85%.[1]	Every five years on or after October 2, 2022	Redeemable in whole every five years at par plus any accrued interest.
5.75% EUR 500 million notes, due October 2023	5.75% payable annually up to October 2, 2013 and then reset quarterly to 3-month EURIBOR plus 2.67%.	Quarterly on or after October 2, 2013	Redeemable in whole at par plus any accrued interest.
4.5% EUR 500 million notes, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015	Redeemable in whole at par plus any accrued interest.
Series II 6.45% USD 700 million Fixed/Adjustable Trust Preferred Securities (ECAPS), due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%.[2]	Quarterly on or after June 15, 2016	Redeemable in whole or in part at par plus any accrued interest.
Series IV 5.875% USD 500 million Fixed/Floating Trust Preferred Securities, due May 2062	5.875% payable semi-annually until May 9, 2012 and then reset quarterly to 3-month LIBOR plus 1.815%.	Quarterly on or after May 9, 2012	Redeemable in whole or in part at par plus any accrued interest.
Series V 6.5% USD 1 billion Fixed/Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017	Redeemable in whole or in part at par plus any accrued interest.

[1] Reset rate of interest is equal to the gross redemption yield on the benchmark five-year Gilt as determined by the Calculation Bank.
[2] Adjustable rate is equal to the greatest of (i) the 3-month LIBOR Rate; (ii) the 10-year Treasury CMT (Constant Maturity Treasury) Rate; and (iii) the 30-year Treasury CMT Rate, subject to a maximum under (ii) and (iii) of 13% for Series II.

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Maturity schedule of outstanding debt

Table 21.3

in USD millions, as of December 31	**2011**		2010	
	Carrying value	**Undiscounted cash flow**	Carrying value	Undiscounted cash flow
< 1 year	1,437	2,032	1,793	2,355
1 to 2 years	1,305	1,823	1,080	1,603
2 to 3 years	1,324	1,811	1,297	1,749
3 to 4 years	917	1,319	1,388	1,797
4 to 5 years	–	376	919	1,273
5 to 10 years	1,345	2,838	–	1,278
> 10 years	5,689	7,625	4,981	6,805
Total	**12,017**	**17,825**	**11,457**	**16,861**

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/redemption dates, see table 21.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 21.3. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2011 and 2010, respectively. All debt is assumed to mature within 20 years of the balance sheet date at the latest without refinancing. Floating interest rates are assumed to remain constant as of December 31, 2011 and 2010, respectively. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Interest expense on debt

Table 21.4

in USD millions, for the years ended December 31	**2011**	2010
Senior debt	263	254
Subordinated debt	324	302
Total	**586**	**556**

Interest expense on debt

Interest expense on debt increased to USD 586 million as of December 31, 2011, from USD 556 million as of December 31, 2010. The higher interest expense was mainly due to foreign exchange fluctuations and the issuance of new debt under the EMTN Programme offset by the positive impact of early redemptions in December 2010 and the expired 3.875% CHF 1 billion senior notes in July 2011.

Credit facilities

On October 31, 2011 the Group early refinanced its revolving credit facility of USD 3 billion, which would have expired in September 2012, by a new syndicated revolving credit facility of EUR 2.5 billion maturing in 2018 at the latest. Zurich Insurance Company Ltd and Farmers Group, Inc. are guarantors of the facility and can draw up to EUR 2.3 billion and EUR 200 million, respectively. No borrowings were outstanding under this facility as of December 31, 2011 or as of December 31, 2010 under the former facility.

In addition, the Group has access to four other revolving credit facilities totaling USD 441 million expiring in 2014. No borrowings were outstanding under these four facilities as of December 31, 2011 or 2010, respectively.

22. Shareholders' equity

Table 22.1

Share capital

	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2009	14,747,307	147,473,068	0.10
Share capital reduction as approved by the Annual General Meeting in 2010	(183,640)	(1,836,404)	0.10
New shares issued from contingent capital in 2010	95,023	950,232	0.10
As of December 31, 2010	14,658,690	146,586,896	0.10
New shares issued from contingent capital in 2011	79,893	798,926	0.10
As of December 31, 2011	14,738,582	147,385,822	0.10
Authorized, contingent and issued share capital			
As of December 31, 2010	17,129,526	171,295,259	0.10
As of December 31, 2011	17,129,526	171,295,259	0.10

a) Issued share capital

At the Annual General Meeting on March 30, 2010 the shareholders approved a share capital reduction of CHF 183,640.40 from CHF 14,747,306.80 to CHF 14,563,666.40 by cancelling 1,836,404 registered shares. The effective date of the capital reduction was June 15, 2010. In addition, the shareholders approved an increase in the authorized share capital to a new maximum of CHF 1,000,000, allowing for enhanced financial flexibility for the company in its future capital management and an increase in the contingent share capital to a new maximum of CHF 500,000 which can be issued to employees of Zurich Financial Services Ltd and its subsidiaries in connection with employee participation plans. During the years 2011 and 2010, a total of 798,926 shares and 950,232 shares, respectively, were issued to employees from contingent capital.

b) Authorized share capital

Until March 30, 2012, the Board of Zurich Financial Services Ltd is authorized to increase the share capital by an amount not exceeding CHF 1,000,000 by issuing up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the commencement of entitlement to dividends.

The Board may issue such new shares by means of a firm underwriting by a banking institution or syndicate with a subsequent offer of those shares to current shareholders. The Board may allow the expiry of pre-emptive rights which have not been exercised, or it may place these rights as well as shares, the pre-emptive rights of which have not been exercised, at market conditions.

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

c) Contingent share capital

Capital market instruments and option rights to shareholders

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

The Board of Directors is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board, the convertible bond or warrant issues are to be offered

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at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at the then current convertible bond or warrant issue conditions.

The conversion rights are exercisable during a maximum period of ten years and option rights for a maximum period of seven years from the time of the respective issue. The conversion or option price or its calculation methodology shall be determined in accordance with market conditions whereby, for shares of Zurich Financial Services Ltd, the quoted share price is to be used as a basis.

Employee participation

On January 1, 2011, and January 1, 2010, the contingent share capital, to be issued to employees of Zurich Financial Services Ltd and Group companies, amounted to CHF 470,836 and CHF 264,383 or 4,708,363 and 2,643,831 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each.

During 2011 and 2010, 798,926 shares and 950,232 shares, respectively, were issued to employees from contingent share capital under the program described above. Of the total 798,926 registered shares issued to employees during the year 2011, 607,254 shares were issued in the period from January 1, 2011 to March 31, 2011 and 191,672 registered shares were issued as from April 1, 2011 to December 31, 2011. As a result, on December 31, 2011 and 2010, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Financial Services Ltd and its subsidiaries, amounted to CHF 390,943.70 and CHF 470,836 or 3,909,437 and 4,708,363 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each. Pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board of Directors and takes into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

d) Preferred securities

Table 22.2

Preferred securities

	Preferred securities in USD	Number of securities	Par value in USD
As of December 31, 2009[1]	575,000,000	575,000	1,000
Preferred securities bought back by group companies[2]	(99,390,000)	(99,390)	1,000
As of December 31, 2010[1]	475,610,000	475,610	1,000
Redeemed securities[3]	(475,610,000)	(475,610)	1,000
As of December 31, 2011	–	–	–

[1] The amount is gross of issuance costs of USD 14 million as of December 31, 2010 and 2009.
[2] The amount shows the nominal amount of preferred securities bought back by group companies. The respective movement in the balance sheet deviates from this amount by USD 14 million, representing the gain on this transaction which was recognized within the same line item.
[3] Total redeemed securities, including those bought back by group companies during 2010 amounted to USD 575 million.

In February 2001, the Group placed six series of Trust Capital Securities (Zurich RegCaPS) for a total amount of USD 1,125 million (USD 1,096 million net of issuance costs) with a limited number of qualified institutional and corporate U.S. investors. The securities, which were issued under Rule 144A in the U.S., were perpetual, non-cumulative and had a par value of USD 1,000 each. They had no voting rights, except in certain specified circumstances and were linked to Farmers Group, Inc. Class C shares.

On March 30, 2006, April 11, 2006 and April 18, 2008, the Group redeemed Series I, III and IV of the Zurich RegCaPS, respectively. The liquidation amounts totalled USD 550 million in aggregate. In 2010, the Group repurchased but did not retire securities of Series V in the total amount of USD 47 million and of Series VI in the total amount of USD 53 million. The three remaining series of Zurich RegCaPS were redeemed by the Group on March 30, 2011 (USD 150 million of Series II), on April 4, 2011 (USD 200 million of Series V) and on April 25, 2011 (USD 225 million of Series VI) respectively.

e) Additional paid-in capital

This reserve is not ordinarily available for distribution. However, as of January 1, 2011 a Swiss tax regulation based on the Swiss Corporate Tax reform II became effective, allowing for payments free of Swiss withholding tax to shareholders out of a so called capital contribution reserve, created out of additional paid-in capital. Therefore, amounts qualifying under this regulation can be paid out of additional paid-in capital.

f) Treasury shares

Table 22.3

Treasury shares

number of shares, as of December 31	2011	2010
Treasury shares	1,373,392	1,399,080

Treasury shares comprise shares acquired in the market, primarily held to cover employee and share option plans.

g) Earnings per share

Table 22.4

Earnings per share

for the years ended December 31	Net income attributable to common shareholders (in USD millions)[1]	Weighted average number of shares	Per share (USD)	Per share (CHF)[2]
2011				
Basic earnings per share	**3,763**	**145,790,012**	**25.81**	**22.79**
Effect of potentially dilutive shares related to share-based compensation plans		1,103,836	(0.19)	(0.17)
Diluted earnings per share	**3,763**	**146,893,848**	**25.61**	**22.62**
2010				
Basic earnings per share	**3,416**	**144,844,915**	**23.59**	**24.53**
Effect of potentially dilutive shares related to share-based compensation plans		1,142,920	(0.18)	(0.19)
Diluted earnings per share	**3,416**	**145,987,835**	**23.40**	**24.33**

[1] Excludes the net income attributable to preferred shareholders of USD 4 million and USD 11 million for the years ended December 31, 2011 and 2010, respectively.
[2] The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2011 and 2010, respectively.

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of shares outstanding for the year, excluding the weighted average number of shares held as treasury shares and preferred securities. Diluted earnings per share reflects the effect of potentially dilutive shares.

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23. Employee benefits

The Group had 52,648 and 54,934 employees (full-time equivalents) as of December 31, 2011 and 2010, respectively. Personnel and other related costs incurred for the year ended December 31, 2011 and 2010, were USD 5,890 million and USD 5,427 million, including wages and salaries of USD 4,885 million and USD 4,516 million, respectively.

The Group operates a number of retirement benefit arrangements for employees, the majority of employees belong to defined benefit plans. Other employees participate in defined contribution plans, which provide benefits equal to amounts contributed by both the employer and the employee plus investment returns.

The Group also operates post-employment plans, mainly in the U.S., which provide employees with certain defined post-employment benefits such as medical care and life insurance.

To ensure appropriate governance of the Group's pension and post-employment benefit plans, the Group Pension Committee provides oversight of the Group's benefits policy.

a) Defined benefit plans

Defined benefit pension plans

Employees of the Group's companies are covered by various pension plans, the largest of which are in the UK, U.S., Germany and Switzerland. Certain companies provide defined benefit plans, some of which provide benefits related to employees' service periods and pensionable earnings. Others provide cash balance plans where the participants receive the benefit of the accumulated employer and employee contributions together with additional cash credits in line with the rules of the plan. Eligibility for participation in the various plans is either based on completion of a specified period of continuous service or from the date of commencement of employment.

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

For the defined benefit pension plans, total contributions to funded pension plans and benefit payments by the Group are currently estimated at USD 479 million for 2012 compared with USD 496 million estimated in the previous year for 2011. The actual amounts may differ.

Other defined post-employment benefits

Certain of the Group's operating companies provide post-employment benefit programs covering medical care and/or life insurance. Eligibility for the various plans is generally based on completion of a specified period of eligible service and reaching a specified age. The programs typically pay a stated percentage of medical expenses subject to deductibles and other factors. The cost of post-employment benefits is accrued during the employees' service periods. The method of accounting and the frequency of valuations are similar to those for defined benefit pension plans.

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

Status of funded defined benefit plans

Table 23.1

in USD millions, as of December 31	Defined benefit pension plans					Other defined post-employment benefits				
	2011	2010	2009	2008	2007	**2011**	2010	2009	2008	2007
Present value of funded obligations	(17,189)	(14,978)	(13,966)	(12,680)	(13,653)	(1)	–	(70)	(93)	(66)
Fair value of plan assets	14,902	13,791	12,622	10,879	13,285	–	–	–	–	5
Funded status	(2,287)	(1,186)	(1,344)	(1,801)	(368)	(1)	–	(70)	(92)	(61)
Unrecognized past service cost	(1)	(1)	–	(1)	–	–	–	–	–	–
Cumulative impact of asset ceiling	(3)	(3)	(15)	(7)	(62)	–	–	–	–	–
Liability – funded obligations	**(2,291)**	**(1,190)**	**(1,359)**	**(1,808)**	**(430)**	**(1)**	**–**	**(70)**	**(92)**	**(61)**

Pensions are long-term by nature. However, short-term variations between long-term actuarial assumptions and actual experience may be positive or negative, resulting in actuarial gains or losses, which are recognized in full in the period in which they occur, and are included in OCI.

Status of unfunded defined benefit plans

Table 23.2

in USD millions, as of December 31	Defined benefit pension plans					Other defined post-employment benefits				
	2011	2010	2009	2008	2007	**2011**	2010	2009	2008	2007
Present value of unfunded obligations	(289)	(260)	(230)	(210)	(207)	(301)	(295)	(205)	(183)	(208)
Unrecognized past service cost	(5)	(10)	–	–	–	(18)	(23)	(28)	(1)	(2)
Liability – unfunded obligations	**(293)**	**(270)**	**(229)**	**(209)**	**(207)**	**(319)**	**(318)**	**(234)**	**(184)**	**(210)**

Status of funded and unfunded defined benefit plans

Table 23.3

in USD millions, as of December 31	Defined benefit pension plans					Other defined post-employment benefits				
	2011	2010	2009	2008	2007	**2011**	2010	2009	2008	2007
Liability	**(2,585)**	**(1,460)**	**(1,588)**	**(2,017)**	**(637)**	**(320)**	**(319)**	**(303)**	**(277)**	**(271)**

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Expense recognized in income

Table 23.4

in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
	2011	2010	**2011**	2010
Current service cost	(314)	(269)	(10)	(9)
Interest cost	(745)	(694)	(13)	(15)
Expected return on plan assets	756	722	–	–
Past service cost	(6)	(12)	5	5
Gains on curtailment or settlement	2	49	12	–
Net pension expense	**(307)**	**(205)**	**(7)**	**(19)**

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

Fair value of assets held in funded defined benefit plans

Table 23.5

in USD millions, as of December 31	Defined benefit pension plans	
	2011	2010
Mortgage loans	465	441
Cash and cash equivalents	193	236
Equity securities	3,233	3,903
Debt securities	10,151	8,410
Real estate	854	795
Other assets[1]	7	6
Total	**14,902**	**13,791**

[1] UK annuity policies.

As a matter of policy, pension plan investment guidelines do not permit investment in any assets in which the Group or its subsidiaries have an interest, including shares or other financial instruments issued and real estate held for own use.

Movement in funded and unfunded defined benefit plan obligation

Table 23.6

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2011	2010	**2011**	2010
Benefit obligation as of January 1	(15,238)	(14,196)	(296)	(275)
Current service cost	(314)	(269)	(10)	(9)
Past service cost including plan amendments	(10)	(1)	–	–
Interest cost	(745)	(694)	(13)	(15)
Actuarial gain/(loss) included in other comprehensive income	(1,894)	(598)	(4)	(4)
Employee contributions	(52)	(43)	(6)	(5)
Effect of curtailments or settlements	2	104	12	–
Benefits paid	612	539	20	20
Foreign currency translation effects	162	(81)	(5)	(7)
Benefit obligation as of December 31	**(17,478)**	**(15,238)**	**(302)**	**(296)**

Table 23.7

Movement in fair value of plan assets – funded plans

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2011	2010	**2011**	2010
Fair value of plan assets as of January 1	13,791	12,622	–	–
Expected return on plan assets	756	722	–	–
Actuarial gain/(loss) included in other comprehensive income	560	388	–	–
Employer contributions	459	532	14	15
Employee contributions	52	43	6	5
Benefits paid	(612)	(539)	(20)	(20)
Effect of curtailments or settlements	–	(56)	–	–
Foreign currency translation effects	(105)	79	–	–
Fair value of plan assets as of December 31	**14,902**	**13,791**	**–**	**–**

The actual returns on defined benefit pension plan assets for the years ended December 31, 2011 and 2010 were gains of USD 1,316 million and USD 1,110 million, respectively.

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

Table 23.8

Movement in liability for funded and unfunded plans

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2011	2010	**2011**	2010
Liability as of January 1	(1,460)	(1,588)	(319)	(303)
Current year expense	(307)	(205)	(7)	(19)
Contributions paid	459	532	14	15
Change in liability due to asset ceiling	–	11	–	–
Actuarial gain/(loss) included in other comprehensive income	(1,333)	(210)	(4)	(4)
Foreign currency translation effects	58	(1)	(5)	(7)
Liability as of December 31	**(2,585)**	**(1,460)**	**(320)**	**(319)**

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

Actuarial gain/(loss)

Table 23.9

in USD millions	2011	2010	2009	2008	2007
Actuarial gain/(loss) as of January 1	(2,914)	(2,672)	(2,907)	(1,308)	(1,870)
Experience adjustments on plan liabilities	(190)	205	(37)	(147)	(118)
Experience adjustments on plan assets	560	388	318	(1,485)	188
Changes due to discount rate assumptions	(1,602)	(742)	(103)	223	975
Changes due to other actuarial assumptions	(105)	(65)	144	(392)	(345)
Asset ceiling recognition	–	11	(7)	51	(64)
Foreign currency translation effects	51	(39)	(80)	152	(75)
Total actuarial gain/(loss) as of December 31	**(4,200)**	**(2,914)**	**(2,672)**	**(2,907)**	**(1,308)**
Total actuarial gain/(loss) net of policyholder participation and taxes as of December 31	**(2,857)**	**(1,924)**	**(1,762)**	**(1,934)**	**(818)**

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

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

Table 23.10

as of December 31	2011				2010			
	Switzerland	**United Kingdom**	**United States**	**Germany**	Switzerland	United Kingdom	United States	Germany
Discount rate	2.1%	5.0%	4.5%	5.4%	2.9%	5.5%	5.3%	5.3%
Inflation rate	1.6%	3.7%	2.2%	1.8%	1.9%	3.4%	2.3%	1.7%
Expected long-term rate of return on assets	2.6%	4.6%	4.7%	4.3%	3.4%	6.2%	6.4%	4.5%
Expected future salary increases	2.2%	4.2%	4.3%	3.1%	2.5%	3.9%	4.2%	3.0%
Expected future pension increases	1.1%	3.7%	0.0%	1.8%	1.4%	3.4%	0.0%	1.7%
Current average life expectancy for a 65 year old male	21.1	22.9	19.6	18.4	19.9	22.7	19.4	18.3

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

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

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

Table 23.11

as of December 31	2011	2010
	U.S.	U.S.
Discount rate	5.0%	5.0%
Expected increase in long-term health cost – initial rate	7.7%	7.8%
Expected increase in long-term health cost – ultimate rate	4.8%	4.8%

The actuarial assumptions for healthcare cost trend rates have an impact on the amounts recognized. A one percentage point change in the health care cost trend rates would have the effect on amounts recognized as set out in table 23.12.

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

Table 23.12

	1% increase	1% decrease
Effect on total service cost and interest cost	–[1]	–[1]
Effect on benefit obligation	4	(4)

[1] Below USD 1 million.

b) Defined contribution pension plans

Certain of the Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either based on completion of a specified period of continuous service or the date of commencement of employment. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 10 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 127 million and USD 108 million in 2011 and 2010, respectively.

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24. Share-based compensation and cash incentive plans

The Group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the Group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based compensation plans are based on the provision of the Zurich Financial Services Ltd shares.

a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 487 million and USD 422 million for the years ended December 31, 2011 and 2010, respectively.

b) Share-based compensation plans for employees and executives

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

Expenses recognized in income

Table 24.1

in USD millions, as of December 31	**2011**	2010
Total option-based expenses	35	55
Total share-based expenses	141	128
Total expenses	**176**	**183**

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

Employee share plans

Share Incentive Plan for employees in the UK

The Group established an Inland Revenue approved Share Incentive Plan and launched the partnership shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Financial Services Ltd shares at the prevailing market price out of their gross earnings. There were 252 and 274 participants in the plan as of December 31, 2011 and 2010, respectively. The Group also operates the profit-sharing element of the Share Incentive Plan (reward shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on the business operating profit (BOP) after tax for the year, for the business unit of each participating employee. Individual awards are subject to a maximum of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,000. The total number of participating employees in the reward share element of the plans as of December 31, 2011 and 2010 was 4,463 and 4,775 respectively.

Share Incentive Plans for employees in Switzerland

Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is equivalent to CHF 3,500 per employee per annum. During 2011, 5,448 employees participated in the Employee Incentive Plan compared with 5,488 in 2010. For the years ended December 31, 2011 and 2010, 1,084 and 1,372 employees, respectively, received shares under the 2010 and 2009 employee performance share plan.

Share-based compensation plans for executives

The Group operates long-term incentive plans for selected executives. These plans comprise the allocation of a target number of shares and/or share options with the vesting of these share and option grants being subject to the achievement of specific financial performance goals.

With effect from 2011, share option grants were discontinued. Those option grants made in the period up to and including 2010 continue to earn out in accordance with the terms and conditions of those grants. The Group can also make restricted share grants to selected employees, which provide share awards if the individual remains employed with the Group on selected dates in the future.

The Group long-term incentive Plan
Participants in this Plan are granted a target number of performance shares in shares of Zurich Financial Services Ltd in April each year, such that the economic value is a defined percentage of the annual salary of each participant in the year of grant. Performance shares vest on an annual basis over the subsequent three year period, with the actual level of vesting being between 0 percent and 175 percent of the original shares granted, with an additional discretion to increase vesting to a maximum of 200 percent, depending on the performance of the Group over the previous three calendar years. Performance metrics used to determine the level of vesting are the Group's return on equity and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. One half of the shares that actually vest are sales-restricted for a further three years. As of December 31, 2011 and December 31, 2010 there were 1,152 and 947 participants in the Plan, respectively.

Prior to 2011, for selected senior executives, the target granted was allocated between performance shares and share options in shares of Zurich Financial Services Ltd. Vesting of the share options is based on the same criteria as those for performance shares over the subsequent three year period, with the same potential multiple of the share options granted dependent on the achievement of the same performance metrics. Share options, once vested, may be exercised by the participant over the the period up to seven years from the date of grant. In 2010, 168 senior executives received a target grant of performance shares and share options.

c) Further information on performance share and option plans

Table 24.2

Movements in options granted under the various equity participation plans

	Number of shares under option		Weighted average exercise price (in CHF)	
	2011	2010	**2011**	2010
As of January 1	3,693,558	3,053,757	281	278
Options granted/vested	828,407	1,698,817	261	272
Options forfeited	(142,385)	(73,560)	248	265
Options exercised	(304,080)	(427,673)	206	204
Options expired during period	(806,721)	(557,783)	276	298
As of December 31	**3,268,779**	**3,693,558**	**285**	**281**
Exercisable options as of December 31	2,587,617	2,263,094	285	281

The average share price for Zurich Financial Services Ltd shares in 2011 and 2010 was CHF 212.72 and CHF 241.41 respectively.

Table 24.3

Share options exercised during the period

	Amount		Average share price in CHF	
	2011	2010	**2011**	2010
Exercise date				
January to April	255,232	199,096	260	255
May to August	26,388	125,825	229	240
September to December	22,460	102,752	208	241
Total	**304,080**	427,673	**232**	248

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Range of exercise prices of options outstanding

Table 24.4

in CHF, as of December 31	Number of options		Weighted average contractual life in years		Weighted average remaining expected life in years	
	2011	2010	**2011**	2010	**2011**	2010
Exercise price						
100 to 200	478,212	536,850	7.0	7.0	4.3	5.3
201 to 300	1,161,398	1,404,170	7.0	7.0	4.5	4.8
301 to 400	1,629,169	1,752,538	7.1	7.1	2.3	3.3
Total	**3,268,779**	3,693,558	**7.0**	7.0	**3.4**	4.2

Options and shares granted during the period

Table 24.5

for the years ended December 31	Number		Weighted average fair value at grant date (in CHF)	
	2011	2010	**2011**	2010
Shares granted/vested during the period	537,955	407,940	244	260
Options granted/vested during the period[1]	828,407	1,698,817	–	29

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

The shares granted during the year are the target allocations made under the performance share plans together with any restricted share awards granted during the year. Whether these grants become vested or not will depend on whether the performance metrics are achieved. If the performance metrics change from the initial assumptions, the expense is adjusted.

Up to and including 2010, options granted during each year were treated in the same way. From 2011 option grants have been discontinued. Option grants made in the period up to and including 2010 continue to earn out in accordance with the terms and conditions of those grants. The fair value of options granted is estimated using the Black-Scholes option pricing model, with the assumptions shown in table 24.6.

Black-Scholes assumptions for fair value of options

Table 24.6

	2010
Share price, in CHF[1]	260
Exercise price, in CHF	260
Assumed volatility	25.55%
Risk-free interest rate	2.00%
Expected dividend yield	6.10%
Contracted option life	7 years

[1] Share price as at date of grant.

The risk-free interest rate was determined by using the seven year CHF swap rate applicable in 2010. The implied volatility was determined based on the average of a number of several independent quotes.

25. Contingent liabilities, contractual commitments and financial guarantees

The Group has provided contractual commitments and financial guarantees to external parties, associates and joint ventures as well as partnerships. These arrangements include commitments under certain conditions to make liquidity advances to cover default principal and interest payments, make capital contributions or provide equity financing.

Quantifiable commitments and contingencies

Table 25.1

in USD millions, as of December 31	**2011**	2010
Commitments under investment agreements	4,037	4,100
Less funded commitments	(3,586)	(3,513)
Remaining commitments under investment agreements	451	587
Guarantees and letters of credit[1]	10,387	9,544
Future operating lease commitments	1,169	1,016
Undrawn loan commitments	57	149
Other commitments and contingent liabilities	7	88

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

Commitments under investment agreements

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

Guarantees and letters of credit

USD 8,691 million of the USD 10,387 million for financial guarantees and letters of credit as of December 31, 2011 relate to guarantees in the aggregate amount of GBP 5,595 million provided to the directors of a fully owned subsidiary in connection with the rationalization of the Group's top legal holding structure which resulted in the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009. These guarantees will expire in August 2015. In 2011, an additional USD 738 million relate to guarantees in the aggregate amount of GBP 475 million provided to the directors of a fully owned subsidiary in connection with the repatriation of capital.

The Group knows of no event of default that would require it to satisfy financial guarantees. Irrevocable letters of credit have been issued to secure certain reinsurance contracts.

The Group is active in numerous countries where insurance guarantee funds exist. In some jurisdictions funding is based on premiums written. In other jurisdictions the Group may be called upon to contribute to such funds in case of a failure of an other market participant. In the case of German life companies the amount of contribution is limited to 1 percent of the net underwriting reserve net of payments already made.

The Group carries certain disposal-related contingencies as it sometimes provides the acquirer of a business with certain indemnification provisions, which can vary by counterparty in scope and duration. The terms of these indemnification provisions cover ordinary contractual guarantees related to disposals and shift the potential risk of certain unquantifiable and unknown loss contingencies from the acquirer to the seller.

Commitments under lease agreements

The Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 141 million and USD 187 million for the years ended December 31, 2011 and 2010, respectively.

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

Table 25.2

in USD millions, as of December 31	**2011**	2010
< 1 year	192	206
1 to 2 years	192	171
2 to 3 years	168	138
3 to 4 years	154	121
4 to 5 years	142	112
> 5 years	322	267
Total	**1,169**	1,016

Indemnity agreements

The Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (now Scor Holding (Switzerland) AG) and its successor companies' net exposure for losses arising out of the September 11, 2001 World Trade Center event in New York. As of December 31, 2011 the Group has recorded provisions of USD 44 million, for losses in excess of USD 289 million.

Other contingent liabilities

The Group has received notices from various tax authorities asserting deficiencies in taxes for various years. The Group is of the view that the ultimate outcome of these reviews would not materially affect the Group's consolidated financial position.

The Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA- by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available as of December 31, 2011 is estimated to amount to approximately USD 131 million.

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

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

Pledged assets

The majority of assets pledged to secure the Group's liabilities relate to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 8,147 million and USD 9,611 million as of December 31, 2011 and 2010, respectively.

Terms and conditions associated with the financial assets pledged to secure the Group's liabilities are usual and standard in the markets in which the underlying agreements were executed.

Legal proceedings and regulatory investigations

The Group and its subsidiaries are continuously involved in legal proceedings, claims and regulatory investigations arising, for the most part, in the ordinary course of their business operations. The Group's business is subject to extensive supervision, and companies in the Group are in regular contact with various regulatory authorities. In addition, certain companies within the Group are engaged in the following legal proceedings and regulatory investigations.

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC

and four of its insurance company subsidiaries, Zurich Insurance Company Ltd (ZIC) and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company (Home), plead claims for fraudulent transfer, alter ego liability and unfair business practices relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contend that this forced Home into liquidation. The plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses. The trial commenced on November 1, 2010, and trial testimony has now concluded. Closing arguments are scheduled for February 2012.

A similar action entitled API, Inc. Asbestos Settlement Trust (API), et al. v. ZAIC, et al., was filed in March 2009 in the District Court for the Second Judicial District, County of Ramsey, Minnesota (API Case). ZAIC and two of its insurance company subsidiaries were named as defendants. The defendants removed the case to the U.S. District Court for the District of Minnesota, where it is now pending. The plaintiffs subsequently amended their complaint to add ZIC, Orange Stone and two additional ZAIC subsidiaries as defendants. As in the Fuller-Austin Case, the plaintiffs allege that API is an insured under policies issued by Home, primarily in the 1970s. The complaint seeks to hold the defendants liable for Home's policy obligations under various theories of vicarious liability tied to the recapitalization of Home, and it also alleges that the defendants are liable for damages under theories of fraudulent transfer and tortious interference with contract. The court ruled on the defendants' motions to dismiss the amended complaint, and dismissed the plaintiffs' fraudulent transfer, tortious interference with contract and consumer fraud claims against all the defendants. The motions were denied as to the remaining claims, as the court found that the plaintiffs' vicarious liability theories could not be disposed of on a motion to dismiss. Pretrial discovery has substantially concluded. Summary judgment motions were filed by both plaintiffs and defendants on July 1, 2011 and oral argument on the motions was heard on November 22, 2011. A decision is pending. If the case is not decided on summary judgment, a trial will follow. The Group maintains that the Fuller-Austin and API Cases are without merit and intends to continue to defend itself vigorously.

Zurich Financial Services (now Zurich Financial Services Ltd, ZFS) is a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium (now Scor Holding (Switzerland) AG). On July 25, 2008, ZFS and the class-action plaintiffs entered into an amended stipulation of settlement that called for a payment of USD 28 million to settle the case in two parts on behalf of all persons and entities who had purchased Converium securities between January 7, 2002 and September 2, 2004: one settlement in the U.S. court, covering all U.S. persons and entities, and all other persons who had purchased Converium securities on U.S. markets, and another settlement in the Amsterdam Court of Appeal, in the Netherlands, covering all non-U.S. persons and entities who had purchased Converium securities on non-U.S. markets. The U.S. and Dutch settlements are both subject to court approval and are independent of each other. The U.S. court approved the U.S. settlement on December 12, 2008, and the ruling became final in June 2009. On January 17, 2012, the Amsterdam Court of Appeal approved the non-U.S. settlement. Under Dutch law, only the parties jointly can appeal, and ZFS will not join in an appeal.

ZFS is a defendant in a putative class action pending in California state court captioned Benjamin Fogel v. Farmers Group, Inc (Fogel Case). The case, originally filed in August 2003, is brought on behalf of a putative class of all policyholders of the Farmers Exchanges from 1999 to the present. The plaintiff alleges that Farmers Group, Inc. and certain of its affiliates (Farmers), which acted as the attorneys-in-fact for policyholders of the Farmers Exchanges, collected excessive and unreasonable management fees. The complaint seeks, amongst other things, disgorgement, as well as damages and injunctive relief. In February 2005, the trial court granted Farmers' motion for summary judgment, and the plaintiff appealed. In 2008, a California appellate court reversed the trial court's ruling and reinstated the litigation. On September 9, 2009, the plaintiff filed a motion seeking to certify a nationwide class of all policyholders of the Farmers Exchanges since August 1, 1999. On October 7, 2010, the Group announced that it had agreed in principle to a proposed nationwide settlement of the Fogel Case. Under the terms of the proposed settlement, a sum of USD 455 million will be made available to approximately 12.5 million policyholders who may qualify for a distribution under the settlement, with any residual amount going to the Farmers Exchanges. The Group will also pay attorneys' fees to class action counsel of up to USD 90 million, as well as the costs of administering the settlement. On December 12, 2010, the parties executed the settlement agreement, all terms of which are subject to the court's final approval. On January 12, 2011, the parties filed a motion seeking preliminary approval of the proposed settlement. On February 3, 2011, the court granted a motion to intervene by a class member who objects to certain aspects of the proposed settlement. The hearing on the motion for preliminary approval was held on March 2, 2011, and the court granted the motion. Notices were mailed and published to class members, and a number of objections and opt-out requests were submitted. On October 31, 2011, the court granted a motion by the State of Montana to intervene so it could object to certain aspects of the proposed settlement. On

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December 21, 2011, the court granted final approval of the settlement, and it reduced the total award of attorneys' fees, expenses, and incentive awards to approximately USD 74 million (instead of USD 90 million). A 60-day appeal period commenced following entry of the court's judgment on December 21, 2011. Notices of appeal have been filed by intervenor State of Montana and one class member.

While the Group believes that it is not a party to, nor are any of its subsidiaries the subject of, any unresolved current legal proceedings, claims, litigation and investigations that will have a material adverse effect on the Group's consolidated financial condition, proceedings are inherently unpredictable, and it is possible that the outcome of any proceeding could have a material impact on results of operations in the particular reporting period in which it is resolved.

26. Fair value of financial assets and financial liabilities

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

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

Table 26.1a

in USD millions, as of December 31	Total fair value		Total carrying value	
	2011	2010	**2011**	2010
Cash and cash equivalents	8,768	8,182	8,768	8,182
Available-for-sale securities				
Debt securities	129,306	128,257	129,306	128,257
Equity securities	7,973	9,798	7,973	9,798
Total available-for-sale securities	137,279	138,055	137,279	138,055
Securities at FV through profit or loss				
Trading				
Debt securities	50	43	50	43
Equity securities	438	473	438	473
Designated at FV				
Debt securities	7,971	6,826	7,971	6,826
Equity securities	2,816	3,458	2,816	3,458
Total securities at FV through profit or loss	11,274	10,799	11,274	10,799
Derivative assets	2,060	1,673	2,060	1,673
Held-to-maturity debt securities	6,182	5,582	5,535	5,129
Investments in associates and joint ventures	161	186	161	188
Loans and receivables				
Mortgage loans	11,607	12,221	11,058	11,851
Other loans	13,623	14,340	11,842	13,419
Deposits made under assumed reinsurance contracts	2,703	2,817	2,711	2,837
Mortgage loans given as collateral	223	739	223	743
Receivables	12,268	13,159	12,302	13,195
Total loans and receivables	40,423	43,276	38,136	42,046
Total financial assets	**206,147**	**207,754**	**203,213**	**206,072**
Financial liabilities at FV through profit or loss				
Trading:				
Obligation to repurchase securities	(1,794)	(3,330)	(1,794)	(3,330)
Derivative liabilities	(663)	(1,002)	(663)	(1,002)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(833)	(592)	(834)	(592)
Liabilities related to investment contracts with DPF	(5,337)	(4,875)	(5,607)	(5,134)
Senior debt	(6,553)	(6,750)	(6,541)	(6,453)
Subordinated debt	(5,153)	(5,089)	(5,476)	(5,004)
Deposits received under ceded reinsurance contracts	(1,460)	(1,231)	(1,543)	(1,362)
Collateralized loans	(223)	(739)	(223)	(743)
Other financial liabilities	(1,897)	(3,694)	(1,900)	(3,698)
Total financial liabilities	**(23,912)**	**(27,302)**	**(24,581)**	**(27,318)**

Fair value (FV) and carrying value of financial assets and financial liabilities – unit-linked

Table 26.1b

in USD millions, as of December 31	Total fair value		Total carrying value	
	2011	2010	**2011**	2010
Cash and cash equivalents	1,280	1,544	1,280	1,544
Investments at FV through profit or loss				
Designated at FV				
Debt securities	11,825	9,376	11,825	9,376
Equity securities	79,862	85,765	79,862	85,765
Other loans	7,739	7,182	7,739	7,182
Total investments at FV through profit or loss	99,426	102,322	99,426	102,322
Derivative assets	65	104	65	104
Loans and receivables				
Total	**100,771**	**103,970**	**100,771**	**103,970**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	(44,220)	(44,941)	(44,220)	(44,941)
Derivative liabilities	(37)	(3)	(37)	(3)
Total	**(44,256)**	**(44,944)**	**(44,256)**	**(44,944)**

The methods and assumptions used by the Group in determining fair values of financial assets and liabilities are set out in note 4. Depending on the valuation techniques used and whether the underlying assumptions are based on observable market data, financial instruments carried at fair value are classified under the following three levels (the fair value hierarchy).

Level 1 – this category includes financial assets for which fair values are determined based on quoted prices (unadjusted) in active markets for identical instruments. A market is considered active only if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Group has classified under Level 1 the majority of common stocks, government bonds and certain corporate bonds and investments in unit trusts that are traded in very liquid markets.

Level 2 – this category includes financial assets and liabilities for which fair values are determined using valuation techniques with all significant inputs based on observable market data. Depending on the nature of the instruments and the market in which they are traded, examples of observable market data may include quoted prices, broker quotes, interest rates, yield curves etc. The Group has classified under Level 2 the majority of corporate bonds, investments in unit trusts, agency-backed and senior tranches of asset-backed securities, and OTC derivatives. While markets for these instruments do not meet the strict requirements to be classified as active, they offer sufficient transaction volumes and, therefore, observable market data to enable the Group to determine their fair value. The Group has also classified under Level 2 liabilities related to unit-linked investment contracts and obligations to repurchase securities.

Level 3 – this category includes financial assets and liabilities for which fair values are determined using valuation techniques with at least one significant input not being based on observable market data. In circumstances when there is little, if any, market activity for a certain instrument, the Group is required to develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability. This would normally apply in the case of investments in hedge funds, private equity funds, asset-backed securities for which currently very limited market activity is observed, and long-dated derivatives. The effect of changes in the internal valuation inputs to reasonably possible alternative values is disclosed in tables 26.4a and 26.4b.

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

Fair Value Hierarchy – current period

Table 26.2a

in USD millions, as of December 31, 2011	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	40,038	87,006	2,261	129,306
Equity securities	3,345	3,651	977	7,973
Total available-for-sale securities	43,383	90,657	3,239	137,279
Securities at FV through profit or loss				
Trading				
Debt securities	35	15	–	50
Equity securities	–	40	398	438
Designated at FV				
Debt securities	3,155	4,626	189	7,971
Equity securities	483	1,068	1,265	2,816
Total securities at FV through profit or loss	3,673	5,749	1,851	11,274
Derivative assets	4	2,023	33	2,060
Total	**47,060**	**98,429**	**5,123**	**150,613**
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	–	(1,794)	–	(1,794)
Derivative liabilities	(8)	(603)	(52)	(663)
Total	**(8)**	**(2,397)**	**(52)**	**(2,457)**

Fair Value Hierarchy – prior period

Table 26.2b

in USD millions, as of December 31, 2010	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	38,827	86,036	3,394	128,257
Equity securities	3,414	3,548	2,836	9,798
Total available-for-sale securities	42,241	89,584	6,230	138,055
Securities at FV through profit or loss				
Trading				
Debt securities	41	2	–	43
Equity securities	–	40	433	473
Designated at FV				
Debt securities	2,847	3,789	191	6,826
Equity securities	516	1,397	1,545	3,458
Total securities at FV through profit or loss	3,404	5,227	2,169	10,799
Derivative assets	4	1,623	46	1,673
Total	**45,649**	**96,433**	**8,445**	**150,527**
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	–	(3,330)	–	(3,330)
Derivative liabilities	(5)	(973)	(25)	(1,002)
Total	**(5)**	**(4,302)**	**(25)**	**(4,332)**

Roll forward analysis for financial instruments classified under Level 3 – current period

Table 26.3a

in USD millions	Available-for-sale securities		Securities at FV through profit or loss				
			Trading	Designated at FV			
	Debt securities	Equity securities	Equity securities	Debt securities	Equity securities	**Derivative assets**	**Derivative liabilities**
As of January 1, 2011	3,394	2,836	433	191	1,545	46	(25)
Realized gains/(losses) recognized in income[1]	26	500	6	1	23	–	–
Unrealized gains/(losses) recognized in income[1]	(12)	(61)	19	(10)	28	16	(27)
Unrealized gains/(losses) recognized in other comprehensive income	(14)	(277)	–	–	–	–	–
Purchases	354	630	95	16	34	–	–
Sales/redemptions/settlements	(1,539)	(1,187)	(155)	(16)	(369)	–	–
Transfers into Level 3	79	9	–	1	–	–	–
Transfers out of Level 3	(40)	(1,566)	–	–	–	(27)	–
Foreign currency translation effects	14	92	(1)	7	4	(1)	–
As of December 31, 2011	**2,261**	**977**	**398**	**189**	**1,265**	**33**	**(52)**

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

During the year ended December 31, 2011, the Group transferred USD 1.6 billion of equity securities from Level 3 to Level 1. The transfer arose because the investment in New China Life Insurance Company Ltd was listed on the Hong Kong Stock Exchange on December 15, 2011.

Roll forward analysis for financial instruments classified under Level 3 – prior period

Table 26.3b

in USD millions	Available-for-sale securities		Securities at FV through profit or loss				
			Trading	Designated at FV			
	Debt securities	Equity securities	Equity securities	Debt securities	Equity securities	**Derivative assets**	**Derivative liabilities**
As of January 1, 2010	2,977	965	844	220	2,305	40	(37)
Realized gains/(losses) recognized in income[1]	22	12	2	11	47	–	–
Unrealized gains/(losses) recognized in income[1]	(81)	(72)	(3)	32	106	5	12
Unrealized gains/(losses) recognized in other comprehensive income	545	727	–	–	–	–	–
Purchases	506	1,082	63	1	92	–	–
Sales/redemptions/settlements	(964)	(56)	(484)	(79)	(1,003)	–	–
Transfers into Level 3	498	2	–	23	–	–	–
Transfers out of Level 3	(104)	–	–	(12)	–	–	–
Foreign currency translation effects	(6)	176	11	(5)	(2)	2	–
As of December 31, 2010	**3,394**	**2,836**	**433**	**191**	**1,545**	**46**	**(25)**

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

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

As of December 31, 2011 and 2010 under Level 3, the Group classified asset-backed securities (ABSs) amounting to USD 2.5 billion and USD 3.6 billion, respectively. These ABSs include non-agency backed securities for which the limited market activity observable during the year required the Group's external pricing providers to make certain internal valuation assumptions. To determine the fair value of these investments, pricing providers use valuation models that are based on an expected present value technique.

The key assumptions driving the valuation of these investments include discount margins and rates for prepayment, recovery and default. The effect on reported fair values of using reasonably possible alternative values for each of these assumptions, while the other key assumptions remain unchanged, is disclosed in tables 26.4a and 26.4b. While tables 26.4 illustrate the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions, may differ significantly between investments, given their different terms and circumstances.

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments, under the current market conditions, and its results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of these investments. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Group's view of expected future changes in the fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

Table 26.4a

Sensitivity analysis of Level 3 ABSs to changes in key assumptions – current period

as of December 31, 2011	Less favorable values (relative change)	Decrease of reported fair value USD millions	More favorable values (relative change)	Increase of reported fair value USD millions
Key assumptions				
Discount margins	+20%	(85)	–20%	90
Prepayment rates	–20%	(9)	+20%	10
Recovery rates	–20%	(1)	+20%	1
Default rates	+20%	(3)	–20%	3

Table 26.4b

Sensitivity analysis of Level 3 ABSs to changes in key assumptions – prior period

as of December 31, 2010	Less favorable values (relative change)	Decrease of reported fair value USD millions	More favorable values (relative change)	Increase of reported fair value USD millions
Key assumptions				
Discount margins	+20%	(105)	–20%	110
Prepayment rates	–20%	(35)	+20%	33
Recovery rates	–20%	(32)	+20%	31
Default rates	+20%	(6)	–20%	3

As of December 31, 2011 and 2010, under Level 3 the Group also classified investments in hedge funds and private equity funds amounting to USD 1.9 billion and USD 2.2 billion, respectively. These investments are valued based on regular reports from the issuing funds and fair values are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments. Investments in hedge funds and private equity funds have not been included in the sensitivity analysis due to the large number of valuation assumptions that while, in total, have a significant effect on the fair value of these investments, when considered individually, the impact of changing them to reasonably possible alternative values would not be significant.

Unit-linked financial instruments

Table 26.5a

Fair Value Hierarchy – current period

in USD millions, as of December 31, 2011	Level 1	Level 2	Level 3	Total
Investments at FV through profit or loss				
Designated at FV				
Debt securities	5,203	6,493	129	11,825
Equity securities	39,778	35,480	4,604	79,862
Other loans	–	7,739	–	7,739
Total investments at FV through profit or loss	44,981	49,712	4,733	99,426
Derivative assets	–	64	1	65
Total	**44,981**	**49,777**	**4,734**	**99,491**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	–	(44,220)	–	(44,220)
Derivative liabilities	–	(33)	(3)	(37)
Total	**–**	**(44,253)**	**(3)**	**(44,256)**

Table 26.5b

Fair Value Hierarchy – prior period

in USD millions, as of December 31, 2010	Level 1	Level 2	Level 3	Total
Investments at FV through profit or loss				
Designated at FV				
Debt securities	4,421	4,812	143	9,376
Equity securities	47,644	33,471	4,650	85,765
Other loans	–	7,182	–	7,182
Total investments at FV through profit or loss	52,065	45,464	4,793	102,322
Derivative assets	–	102	2	104
Total	**52,065**	**45,567**	**4,795**	**102,427**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	–	(44,941)	–	(44,941)
Derivative liabilities	–	(2)	(2)	(3)
Total	**–**	**(44,942)**	**(2)**	**(44,944)**

Consolidated financial statements *continued*

Roll forward analysis for financial assets classified under Level 3 - current period

Table 26.6a

in USD millions	Securities at FV through profit or loss	
	Designated at FV	
	Debt securities	Equity securities
As of January 1, 2011	143	4,650
Realized gains/(losses) recognized in income[1]	2	46
Unrealized gains/(losses) recognized in income[1]	–	218
Purchases	5	27
Sales/redemptions	(21)	(329)
Transfers into Level 3	–	1
Transfers out of Level 3	–	(4)
Foreign currency translation effects	–	(5)
As of December 31, 2011	**129**	**4,604**

[1] Presented as net investment result on unit-linked investments in the Consolidated income statements.

Roll forward analysis for financial assets classified under Level 3 – prior period

Table 26.6b

in USD millions	Securities at FV through profit or loss	
	Designated at FV	
	Debt securities	Equity securities
As of January 1, 2010	130	4,579
Realized gains/(losses) recognized in income[1]	4	27
Unrealized gains/(losses) recognized in income[1]	23	124
Purchases	19	113
Sales/redemptions	(29)	(167)
Transfers into Level 3	1	–
Transfers out of Level 3	–	(19)
Foreign currency translation effects	(4)	(7)
As of December 31, 2010	**143**	**4,650**

[1] Presented as net investment result on unit-linked investments in the Consolidated income statements.

27. Related party transactions

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

The table below sets out related party transactions with equity method accounted investments, as well as other related parties, such as the Group's distribution partners of the jointly owned companies in Spain (Banco Sabadell S.A.) and Latin America (Banco Santander S.A.), reflected in the consolidated income statements and consolidated balance sheets.

Table 27.1

Related party transactions included in the Consolidated financial statements

in USD millions	**2011**	2010
For the years ended December 31,		
Net earned premiums and policy fees	28	12
Net investment income	(190)	(104)
Net investment expense	(1)	(1)
Other income/(expense)	(1)	(37)
Losses and loss adjustment expenses	(4)	(6)
Administrative and other operating expenses	(5)	(4)
Consolidated balance sheet as of December 31,		
Cash and cash equivalents	172	475
Other loans	442	537
Total unit-linked investments	3,447	3,196
Receivables	6	1
Policyholders' collateral and other loans	21	9
Reserves for losses and loss adjustment expenses	(8)	(11)

Consolidated financial statements *continued*

Table 27.2 summarizes related party transactions with key personnel reflected in the Consolidated financial statements. Key personnel includes Members of the Board of Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd and Members of the Group Executive Committee.

Related party transactions – key personnel

Table 27.2

in USD millions, for the years ended December 31	**2011**	2010
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	33	30
Post-employment benefits	3	3
Share-based compensation	19	20
Termination benefits	–	2
Total remuneration of key personnel	**55**	55

As of December 31, 2011 and 2010 there were no loans, advances or credits outstanding from Members of the Group Executive Committee. Outstanding loans and guarantees granted to Members of the Board of Directors amounted to USD 3 million for the year ended December 31, 2011 and USD 2 million for the year ended December 31, 2010. The terms "Members of the Board of Directors" and "Members of the Group Executive Committee" in this context include the individual as well as members of their respective households. The above figures include the fees paid to Members of the Board of Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd, which were USD 5 million and USD 3 million for the years ended December 31, 2011 and December 31, 2010, respectively.

No provision for non-repayment has been required in 2011 and 2010 for the loans or guarantees made to Members of the Group Executive Committee.

Information required by art. 663bbis and art. 663c paragraph 3 of the Swiss Code of Obligation is disclosed in the Financial Statements of the holding company.

The cash compensation, current benefits and fees are short term in nature.

28. Farmers Exchanges

Farmers Group, Inc. and its subsidiaries (FGI) provide certain non-claims related management services to the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc. a wholly owned subsidiary of the Group. In addition, the Group has the following relationships with the Farmers Exchanges.

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

As of December 31, 2011 and 2010, FGI and other Group companies held the following surplus notes and certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Surplus Notes

Table 28

in USD millions, as of December 31	2011	2010
6.15% surplus note, due June 2021[1]	707	–
6.15% surplus note, due June 2021[1]	140	–
6.15% surplus note, due June 2021[1]	60	–
6.15% surplus note, due December 2013[1]	–	88
6.15% certificates of contribution, due December 2013[1]	–	523
6.15% certificates of contribution, due August 2014[1]	–	296
4.65% certificates of contribution, due December 2013	150	150
Various other certificates of contribution	23	23
Total	**1,080**	**1,080**

[1] On June 30, 2011 three surplus notes totaling USD 907 million were cancelled and subsequently reissued by the Farmers Exchanges under the same terms and conditions, but maturing June 2021, and in different amounts, although total amount remains unchanged.

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

b) Quota share reinsurance treaties with the Farmers Exchanges

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

Auto Physical Damage Quota Share reinsurance agreement

The Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges provides for annual ceded premiums of USD 1 billion with 20.0 percent assumed by Farmers Re Co (USD 200 million) and 80.0 percent assumed by ZIC (USD 800 million), a 25.8 percent ceding commission for acquisition expenses, and an 8.2 percent ceding commission for unallocated loss adjustment expenses. In addition, Farmers Re Co and ZIC assume a quota share percentage of ultimate net losses sustained by the Farmers Exchanges in their APD lines of business. The APD agreement also includes provisions for additional experience commissions that will depend on loss experience and recoveries below a specified ratio for each year. This experience commission arrangement limits Farmers Re Co and ZIC's potential underwriting gain on the assumed business to 2.0 percent of premiums assumed plus 20.0 percent of the underwriting gain resulting from a combined ratio under 98.0 percent. The APD agreement terminated as of December 31, 2011 and was renewed thereafter.

Farmers Exchanges' share of ceded premiums amounted to USD 1 billion for both the years ended December 31, 2011 and 2010. Ceded incurred losses and loss adjustment expenses totaled USD 709 million and USD 648 million for the years ended December 31, 2011 and 2010, respectively. Farmers Exchanges' share of the total experience commission income was USD 268 million and USD 315 million for the years ended December 31, 2011 and 2010, respectively.

All Lines Quota Share reinsurance agreement

Certain of the Farmers Exchanges participate in an All Lines Quota Share reinsurance agreement (All Lines agreement)

Consolidated financial statements *continued*

with Farmers Re Co and ZIC which has been amended over the years, with the participation ratio at 35 percent as of December 31, 2009. The All Lines agreement provided for a cession of a quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied. Effective June 30, 2010, the All Lines agreement was cancelled subsequent to which Farmers Re Co and ZIC entered into a new 25.0 percent All Lines agreement under which each assumes a percentage of all lines of business written by the Farmers Exchanges, prospectively. Under this new All Lines agreement, Farmers Re Co and ZIC assumed a 5.0 percent and 20.0 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied. In addition, under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1 billion. As a result, Farmers Re Co and ZIC are subject to a maximum annual catastrophe loss of USD 50 million and USD 200 million, respectively. The All Lines agreement, which can be terminated after 90 days notice by any of the parties, also provides for the Farmers Exchanges to receive a provisional ceding commission of 25.7 percent of premiums for acquisition expenses, 9.0 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses. Unearned premiums totaling USD 614 million were transferred from Farmers Re Co and ZIC to the Farmers Exchanges as a result of their decreased participation in the All Lines agreement through June 30, 2010. In addition, the Farmers Exchanges remitted USD 158 million of reinsurance commissions to Farmers Re Co and ZIC for acquisition expenses due to the decreased participation in the All Lines agreement.

Effective December 31, 2010, the All Lines agreement was modified and the participation ratio was decreased from 25.0 percent to 12.0 percent. In addition to this change, the provisional ceding commission for acquisition expenses was increased by 1.0 percent from 25.7 percent to 26.7 percent, while the Farmers Exchanges' catastrophe losses were changed from a maximum of USD 1.0 billion to a maximum of USD 1.2 billion. Unearned premiums totaling USD 693 million were transferred from Farmers Re Co and ZIC to the Farmers Exchanges as a result of their decreased participation in the All Lines agreement effective December 31, 2010. In addition, the Farmers Exchanges remitted USD 185 million of reinsurance commissions to Farmers Re Co and ZIC for acquisition expenses due to the decreased participation in the All Lines agreement.

Effective December 31, 2011, the All Lines agreement was amended subsequent to which Farmers Re Co and ZIC entered into a 20.0 percent All Lines agreement, under which each assumes a percentage of all lines of business written by the Farmers Exchanges, prospectively. Under the All Lines agreement, which amended the 12.0 percent All Lines agreement in effect since December 31, 2010, Farmers Re Co and ZIC assume a 4.0 percent and 16.0 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied. In addition, under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1.2 billion. As a result, Farmers Re Co and ZIC are subject to a maximum annual catastrophe loss of USD 48.0 million and USD 192 million, respectively. The All Lines agreement, which can be terminated after 90 days notice by any of the parties, also provides for the Farmers Exchanges to continue to receive a provisional ceding commission of 26.7 percent of premiums for acquisition expenses, 9.0 percent of premiums for unallocated loss adjustment expense and 5.3 percent of premiums for other expenses. Unearned premiums totaling USD 527 million were transferred from the Farmers Exchanges to Farmers Re Co and ZIC as a result of their increased participation in the All Lines agreement as from December 31, 2011. In addition, Farmers Re Co and ZIC remitted USD 141 million of reinsurance commissions to the Farmers Exchanges for acquisition expenses due to the increased participation in the All Lines agreement.

Based on the results for 2011, ceded premiums earned and commissions were USD 1,984 million and USD 635 million, respectively, and recoveries totaled USD 1,396 million, for the year ended December 31, 2011. Ceded premiums earned and commissions were USD 4,574 million and USD 1,418 million, respectively, and recoveries totaled USD 3,059 million, for the year ended December 31, 2010.

29. Segment information

The Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both businesses and geography. The Group's operating segments have been identified on the basis of the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. Segment information is presented accordingly. The Group's reportable segments are as follows:

General Insurance is the segment through which the Group provides a variety of motor, home and commercial products and services for individuals, as well as small and large businesses.

Global Life pursues a strategy of providing market-leading unit-linked, protection and corporate propositions through global distribution and proposition pillars to develop leadership positions in its chosen segments.

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

For the purpose of discussing financial performance the Group considers General Insurance, Global Life and Farmers to be its core business segments.

Other Operating Businesses predominantly consist of the Group´s Headquarter and Holding and Financing activities. Certain alternative investment positions not allocated to business operating segments are included within Holding and Financing.

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

As of January 1, 2011, the Group implemented changes in the way it manages two of the three core segments on a secondary level.

The General Insurance segment is managed based on market-facing businesses, including:

- Global Corporate
- North America Commercial
- Europe
- Latin America
- Asia-Pacific
- Middle East and Africa

The Global Life segment is managed on a regional-based structure within a global framework, including:

- North America
- Latin America
- Europe
- Asia-Pacific and Middle East

The 2010 segmental results have been restated to reflect these changes, with no impact on the Group's financial position or performance.

Consolidated financial statements *continued*

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

Consolidated financial statements *continued*

Business operating profit by business segment

Table 29.1

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2011	2010	**2011**	2010
Revenues				
Direct written premiums[1]	32,379	30,906	9,335	9,993
Assumed written premiums	2,193	2,161	97	120
Gross Written Premiums	34,572	33,066	9,432	10,113
Policy fees	–	–	2,152	2,179
Gross written premiums and policy fees	34,572	33,066	11,583	12,292
Less premiums ceded to reinsurers	(5,325)	(5,100)	(682)	(754)
Net written premiums and policy fees	29,247	27,966	10,901	11,539
Net change in reserves for unearned premiums	(171)	(122)	(36)	(26)
Net earned premiums and policy fees	29,076	27,844	10,865	11,513
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,807	2,913	4,575	4,390
Net investment income on Group investments	2,799	2,867	4,146	3,892
Net capital gains/(losses) and impairments on Group investments	8	46	429	498
Net investment result on unit-linked investments	–	–	(3,548)	9,639
Other income	922	709	1,012	918
Total BOP revenues	32,805	31,467	12,904	26,460
of which: inter-segment revenues	*(576)*	*(414)*	*(343)*	*(296)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	20,914	19,795	9,503	10,140
Losses and loss adjustment expenses, net	20,894	19,773	59	76
Life insurance death and other benefits, net	20	22	10,208	9,773
(Decrease)/increase in future life policyholders' benefits, net[1]	–	1	(764)	291
Policyholder dividends and participation in profits, net	9	3	(2,826)	10,302
Income tax expense/(benefit) attributable to policyholders	–	–	(242)	462
Underwriting and policy acquisition costs, net	5,587	5,409	2,029	1,503
Administrative and other operating expense (excl. depreciation/amortization)	3,673	3,134	2,394	1,883
Interest credited to policyholders and other interest	24	39	395	428
Restructuring provisions and other items not included in BOP	(238)	(306)	(130)	(179)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	29,969	28,074	11,123	24,539
Business operating profit (before interest, depreciation and amortization)	**2,836**	**3,392**	**1,781**	**1,922**
Depreciation and impairments of property and equipment	86	83	30	32
Amortization and impairments of intangible assets	278	398	315	303
Interest expense on debt	209	222	56	71
Business operating profit before non-controlling interests	2,264	2,689	1,380	1,516
Non-controlling interests	(1)	22	26	42
Business operating profit	**2,265**	**2,667**	**1,353**	**1,474**
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	402	299	296	96

[1] The Global Life segment includes approximately USD 891 million and USD 1,514 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2011 and 2010, respectively (see note 3).

Farmers 2011	Farmers 2010	Other Operating Businesses 2011	Other Operating Businesses 2010	Non-Core Businesses 2011	Non-Core Businesses 2010	Eliminations 2011	Eliminations 2010	Total 2011	Total 2010
–	–	–	–	150	162	–	–	41,864	41,061
3,529	4,194	141	137	144	142	(220)	(256)	5,884	6,498
3,529	4,194	141	137	294	304	(220)	(256)	47,748	47,559
–	–	–	–	300	227	–	–	2,452	2,406
3,529	4,194	141	137	594	531	(220)	(256)	50,200	49,965
–	–	(59)	(54)	(704)	(32)	220	256	(6,550)	(5,683)
3,529	4,194	82	84	(110)	499	–	–	43,650	44,282
(545)	1,380	1	–	2	2	–	(1)	(751)	1,234
2,984	5,574	83	84	(108)	502	–	(1)	42,899	45,516
2,767	2,778	–	–	–	–	–	–	2,767	2,778
133	156	524	525	987	377	(847)	(857)	8,180	7,506
133	156	524	525	429	509	(847)	(857)	7,185	7,092
–	–	–	–	558	(131)	–	–	995	413
–	–	–	–	4	454	–	–	(3,544)	10,093
64	91	920	784	105	164	(1,534)	(1,225)	1,488	1,442
5,948	8,600	1,527	1,394	988	1,498	(2,381)	(2,083)	51,790	67,335
(67)	*(70)*	*(1,336)*	*(1,191)*	*(59)*	*(113)*	*2,381*	*2,083*	–	–
2,105	3,708	58	72	475	769	–	–	33,054	34,484
2,105	3,708	1	2	(622)	62	3	–	22,439	23,620
–	–	57	69	618	683	–	–	10,904	10,548
–	–	(1)	–	479	24	(3)	–	(289)	316
–	–	–	–	133	496	–	(1)	(2,685)	10,801
–	–	–	–	–	–	–	–	(242)	462
902	1,733	16	6	9	8	(20)	(10)	8,523	8,649
1,290	1,900	1,193	980	213	188	(1,490)	(1,195)	7,274	6,890
–	1	10	3	57	62	(7)	(3)	479	529
(10)	(602)	(107)	12	1	21	–	–	(483)	(1,055)
4,288	6,739	1,170	1,072	888	1,544	(1,517)	(1,209)	45,920	60,759
1,660	**1,860**	**357**	**322**	**100**	**(46)**	**(864)**	**(874)**	**5,870**	**6,576**
56	65	14	20	5	4	–	–	191	205
118	109	93	64	1	8	–	–	805	882
–	–	1,085	1,039	100	98	(864)	(874)	586	556
1,486	1,686	(835)	(802)	(7)	(157)	–	–	4,288	4,934
–	–	–	(1)	1	1	–	–	26	64
1,486	**1,686**	**(835)**	**(801)**	**(8)**	**(157)**	**–**	**–**	**4,261**	**4,870**
171	236	124	91	–	24	–	–	994	747

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Table 29.2

Reconciliation of BOP to net income after income taxes

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2011	2010	**2011**	2010
Business operating profit	**2,265**	**2,667**	**1,353**	**1,474**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	526	281	407	14
Net gain/(loss) on divestments of businesses	(5)	5	16	33
Restructuring provisions	(145)	(71)	(69)	(21)
Net income/(expense) on intercompany loans[3]	(49)	(55)	(14)	(37)
Other adjustments	(45)[4]	(180)[4]	(48)[5]	(121)
Add back:				
Business operating profit attributable to non-controlling interests	(1)	22	26	42
Net income before shareholders' taxes	**2,547**	**2,668**	**1,672**	**1,384**
Income tax expense/(benefit) attributable to policyholders	–	–	(242)	462
Net income before income taxes	**2,547**	**2,668**	**1,431**	**1,845**
Income tax expense (attributable to policyholders and shareholders)				
Net income after taxes				

[1] Includes USD 570 million settlement costs related to the FOGEL case (see note 25).
[2] Includes USD 100 million charitable commitment to the Zurich Foundation.
[3] The impact on Group level relates to foreign currency translation differences.
[4] Includes USD 85 million and USD 114 million as of December 31, 2011 and 2010, respectively, of software impairments related to a restructuring program impacting several European countries (see notes 17 and 19).
[5] Includes USD 67 million related to a voluntary settlement of an insurance liability in Italy.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	1,486	**1,686**	**(835)**	**(801)**	**(8)**	**(157)**	**4,261**	**4,870**
	(12)	(9)	230	168	37	31	1,187	484
	–	–	(5)	–	–	1	6	38
	(9)	(17)	–	–	–	(1)	(222)	(111)
	–	–	65	86	–	–	2	(5)
	(1)	(585)[1]	(172)[2]	(75)	1	22	(263)	(939)
	–	–	–	(1)	1	1	26	64
	1,464	**1,074**	**(716)**	**(622)**	**31**	**(104)**	**4,998**	**4,401**
	–	–	–	–	–	–	(242)	462
	1,464	**1,074**	**(716)**	**(622)**	**31**	**(104)**	**4,757**	**4,862**
							(965)	(1,355)
							3,792	**3,507**

Consolidated financial statements *continued*

Assets and liabilities by business segment

Table 29.3

in USD millions, as of December 31	General Insurance		Global Life	
	2011	2010	**2011**	2010
Assets				
Total Group Investments	84,142	85,967	101,735	100,976
Cash and cash equivalents	8,261	9,024	3,247	2,564
Equity securities	5,275	5,561	4,107	5,201
Debt securities	62,894	64,136	68,055	64,471
Real estate held for investment	2,911	2,940	5,126	4,893
Mortgage loans	1,472	1,495	8,177	8,538
Other loans	3,325	2,806	12,959	15,212
Investments in associates and joint ventures	6	6	65	97
Investments for unit-linked contracts	–	–	93,096	96,139
Total investments	84,142	85,967	194,831	197,116
Reinsurers' share of reserves for insurance contracts	13,440	13,320	2,068	1,997
Deposits made under assumed reinsurance contracts	71	120	19	11
Deferred policy acquisition costs	3,500	3,426	13,011	12,686
Deferred origination costs	–	–	824	866
Goodwill	827	869	413	411
Other intangible assets	1,158	1,208	2,895	3,022
Other assets[1]	14,632	14,743	22,311	7,367
Total assets (after cons. of investments in subsidiaries)	**117,770**	**119,654**	**236,372**	**223,476**
Liabilities				
Liabilities for investment contracts	–	–	50,661	50,912
Reserves for insurance contracts, gross	80,462	80,242	136,248	138,536
Reserves for losses and loss adjustment expenses, gross	64,074	63,864	39	58
Reserves for unearned premiums, gross	15,026	15,084	205	201
Future life policyholders' benefits, gross	92	103	74,162	74,901
Policyholders' contract deposits and other funds, gross	1,269	1,192	14,195	13,397
Reserves for unit-linked contracts, gross	–	–	47,647	49,978
Senior debt	5,354	5,152	948	457
Subordinated debt	1,038	1,700	333	793
Other liabilities[2]	12,913	14,315	30,368	17,960
Total liabilities	**99,767**	**101,408**	**218,558**	**208,659**
Equity				
Common shareholders' equity				
Preferred securities				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				

[1] The General Insurance and Global Life segments include assets held for sale amounting to USD 38 million and USD 17 million, respectively. See note 5.
[2] The General Insurance and Global Life segments include liabilities held for sale amounting to USD 41 million and USD 14 million, respectively. See note 5.

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	4,267	4,526	19,332	20,110	13,119	14,757	(28,211)	(30,438)	194,385	195,898
	580	808	8,596	7,158	2,637	3,148	(14,552)	(14,521)	8,768	8,182
	93	83	1,533	2,597	219	287	–	–	11,226	13,729
	1,295	1,296	4,563	4,070	7,016	7,261	(962)	(980)	142,861	140,254
	132	135	42	45	258	261	–	–	8,468	8,274
	–	–	–	–	1,409	1,819	–	–	11,058	11,851
	2,168	2,204	4,593	6,235	1,495	1,900	(12,697)	(14,937)	11,842	13,419
	–	–	6	5	84	80	–	–	161	188
	–	–	–	–	11,508	11,808	–	–	104,603	107,947
	4,267	4,526	19,332	20,110	24,626	26,565	(28,211)	(30,438)	298,988	303,845
	–	212	–	–	4,509	4,328	(656)	(1,041)	19,361	18,816
	2,141	2,201	–	–	508	530	(28)	(26)	2,711	2,837
	352	167	–	–	1	1	–	–	16,864	16,281
	–	–	–	–	–	–	–	–	824	866
	819	819	–	5	–	–	–	–	2,060	2,104
	1,434	1,453	286	269	1	2	–	–	5,774	5,954
	1,009	1,202	1,906	2,714	1,261	1,149	(1,832)	(2,255)	39,288	24,919
	10,023	**10,581**	**21,525**	**23,097**	**30,906**	**32,575**	**(30,727)**	**(33,759)**	**385,869**	**375,623**
	–	–	–	–	–	–	–	(246)	50,661	50,667
	2,728	2,711	39	57	21,972	22,194	(637)	(1,021)	240,811	242,719
	1,410	1,938	28	46	2,559	2,953	(586)	(752)	67,525	68,107
	1,318	773	4	5	22	25	(9)	(7)	16,567	16,081
	–	–	6	6	5,097	4,569	(42)	(265)	79,314	79,315
	–	–	–	–	2,787	2,839	–	2	18,251	17,430
	–	–	–	–	11,507	11,807	–	–	59,154	61,786
	125	–	22,590	24,064	2,134	2,462	(24,611)	(25,681)	6,541	6,453
	–	–	5,432	5,000	23	170	(1,350)	(2,659)	5,476	5,004
	1,635	2,024	3,149	2,366	4,428	5,026	(4,129)	(4,152)	48,364	37,539
	4,488	**4,735**	**31,209**	**31,487**	**28,557**	**29,852**	**(30,727)**	**(33,759)**	**351,852**	**342,382**
									31,636	31,429
									–	475
									31,636	31,905
									2,380	1,336
									34,017	33,241
									385,869	**375,623**

Financial information

Consolidated financial statements *continued*

General Insurance – Customer segment overview

Table 29.4

in USD millions, for the years ended December 31	Global Corporate		North America Commercial	
	2011	2010	**2011**	2010
Gross written premiums and policy fees	7,949	7,624	9,777	9,728
Net earned premiums and policy fees	5,350	4,902	7,644	7,580
Insurance benefits and losses, net	4,564	3,662	5,126	5,102
Policyholder dividends and participation in profits, net	–	(2)	8	8
Total net technical expenses	1,086	1,036	2,196	2,254
Net underwriting result	(301)	205	315	217
Net investment income	600	567	979	1,097
Net capital gains/(losses) and impairments on investments	2	11	8	35
Net non-technical result (excl. items not included in BOP)	(132)	(41)	(255)	(230)
Business operating profit before non-controlling interests	169	742	1,048	1,118
Non-controlling interests	–	1	–	–
Business operating profit	169	741	1,048	1,118
Ratios, as % of net earned premiums and policy fees				
Loss ratio	85.3%	74.7%	67.0%	67.3%
Expense ratio	20.3%	21.1%	28.8%	29.8%
Combined ratio	105.6%	95.8%	95.9%	97.1%

Europe		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
12,932	12,427	4,425	3,854	401	574	(912)	(1,142)	34,572	33,066
12,647	12,393	3,377	2,902	58	68	–	–	29,076	27,844
8,955	8,958	2,462	1,954	(192)	120	–	–	20,914	19,795
–	(3)	–	–	–	–	–	–	9	3
3,313	3,150	1,180	1,016	22	22	14	(5)	7,811	7,474
379	287	(265)	(68)	228	(74)	(14)	5	342	572
928	919	236	217	57	66	(1)	2	2,799	2,867
(1)	1	–	–	–	–	–	–	8	46
(351)	(438)	(118)	(39)	(44)	(41)	15	(6)	(885)	(796)
954	768	(147)	110	240	(49)	–	–	2,264	2,689
(10)	(6)	9	26	–	–	–	–	(1)	22
964	774	(156)	84	240	(49)	–	–	2,265	2,667
70.8%	72.3%	72.9%	67.3%	nm	nm	n/a	n/a	71.9%	71.1%
26.2%	25.4%	34.9%	35.0%	nm	nm	n/a	n/a	26.9%	26.9%
97.0%	97.7%	107.8%	102.3%	nm	nm	n/a	n/a	98.8%	97.9%

Consolidated financial statements *continued*

Table 29.5

General Insurance – Revenues by region

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers		of which Global Corporate	
	2011	2010	**2011**	2010
Middle East	118	60	80	60
Africa				
South Africa	539	634		
Morocco	130	109		
Subtotal Africa	669	743	–	–
Latin America				
Argentina	278	224		
Brazil	571	412		
Chile	270	220		
Mexico	291	258		
Venezuela	244	225		
Rest of Latin America	34	34		
Subtotal Latin America	1,687	1,374	–	–
North America				
United States	11,494	11,281		
Rest of North America	930	920		
Subtotal North America	12,424	12,201	2,838	2,671
Asia-Pacific				
Australia	1,114	943		
Hong Kong	182	154		
Japan	736	606		
Taiwan	126	119		
Rest of Asia-Pacific	288	205		
Subtotal Asia-Pacific	2,446	2,027	590	481
Europe				
United Kingdom	3,878	4,069		
Germany	3,387	3,106		
Switzerland	3,408	2,961		
Italy	2,122	2,175		
Spain	1,671	1,709		
Rest of Europe	2,750	2,605		
Subtotal Europe	17,215	16,624	4,150	4,088
Total	**34,559**	**33,029**	**7,659**	**7,299**

General Insurance – Non-current assets by region

Table 29.6

in USD millions, as of December 31	Property/equipment and intangible assets	
	2011	2010
Middle East	35	–
Africa		
South Africa	19	25
Morocco	31	35
Subtotal Africa	50	60
Latin America		
Argentina	7	4
Brazil	170	151
Chile	1	1
Mexico	10	11
Venezuela	13	8
Rest of Latin America	5	8
Subtotal Latin America	207	183
North America		
United States	247	232
Rest of North America	6	8
Subtotal North America	254	240
Asia-Pacific		
Australia	79	79
Hong Kong	6	7
Japan	33	34
Taiwan	18	19
Rest of Asia-Pacific	4	2
Subtotal Asia-Pacific	140	141
Europe		
United Kingdom	199	212
Germany	210	225
Switzerland	589	674
Italy	49	65
Spain	501	543
Rest of Europe	609	668
Subtotal Europe	2,158	2,386
Total	**2,844**	**3,012**

Consolidated financial statements *continued*

Global Life – Overview

Table 29.7

in USD millions, for the years ended December 31	North America		Latin America	
	2011	2010	**2011**	2010
Revenues				
Life insurance deposits	298	220	274	154
Gross written premiums[1]	509	490	650	643
Policy fees	283	282	24	27
Gross written premiums and policy fees	793	772	674	670
Net earned premiums and policy fees	579	558	645	597
Net investment income on Group investments	330	342	134	120
Net capital gains/(losses) and impairments on Group investments	–	4	–	–
Net investment result on Group investments	330	346	134	120
Net investment income on unit-linked investments	(29)	(30)	8	8
Net capital gains/(losses) and impairments on unit-linked investments	(18)	49	(24)	60
Net investment result on unit-linked investments	(47)	19	(16)	68
Other income	97	97	15	22
Total BOP revenues	960	1,019	778	807
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	339	318	447	442
Policyholder dividends and participation in profits, net	(24)	24	(13)	66
Income tax expense/(benefit) attributable to policyholders	–	–	–	–
Underwriting and policy acquisition costs, net	123	111	132	96
Administrative and other operating expense (excl. depreciation/amortization)	129	129	142	114
Interest credited to policyholders and other interest	137	168	5	5
Restructuring provisions and other items not included in BOP	1	(1)	3	–
Total BOP benefits, losses and expenses	704	750	717	724
Business operating profit (before interest, depreciation and amortization)	**256**	**269**	**61**	**84**
Depreciation and impairments of property and equipment	1	1	2	1
Amortization and impairments of intangible assets	26	25	2	2
Interest expense on debt	2	2	9	–
Business operating profit before non-controlling interests	227	241	49	81
Non-controlling interests	–	–	–	5
Business operating profit	**227**	**241**	**49**	**76**

[1] Europe includes approximately USD 891 million and USD 1,514 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2011 and 2010, respectively (see note 3).

	Europe		Asia-Pacific and Middle East		Other		Eliminations		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	13,244	12,931	1,771	1,421	541	656	–	–	16,127	15,382
	7,640	8,485	560	459	102	89	(30)	(53)	9,432	10,113
	1,715	1,712	125	155	4	3	–	–	2,152	2,179
	9,355	10,197	686	614	106	92	(30)	(53)	11,583	12,292
	8,961	9,777	580	516	100	71	–	(6)	10,865	11,513
	3,562	3,353	107	66	13	12	–	–	4,146	3,892
	396	492	33	3	–	–	–	–	429	498
	3,957	3,844	140	68	13	12	–	–	4,575	4,390
	2,024	1,790	106	78	30	16	–	–	2,139	1,862
	(4,595)	6,665	(946)	965	(104)	39	–	–	(5,687)	7,777
	(2,572)	8,454	(840)	1,043	(74)	55	–	–	(3,548)	9,639
	426	394	197	170	280	238	(4)	(4)	1,012	918
	10,773	22,470	77	1,798	320	377	(4)	(10)	12,904	26,460
	8,455	9,190	216	149	47	41	–	–	9,503	10,140
	(1,920)	9,103	(801)	1,057	(69)	58	–	(6)	(2,826)	10,302
	(255)	460	14	1	–	–	–	–	(242)	462
	1,507	1,023	156	191	111	81	1	–	2,029	1,503
	1,562	1,164	340	283	225	196	(5)	(4)	2,394	1,883
	224	224	28	30	–	–	–	–	395	428
	(127)	(177)	(7)	(1)	–	–	–	–	(130)	(179)
	9,446	20,988	(53)	1,710	314	377	(4)	(10)	11,123	24,539
	1,327	**1,482**	**131**	**87**	**6**	**–**	**–**	**–**	**1,781**	**1,922**
	23	25	4	4	–	1	–	–	30	32
	279	267	3	4	4	5	–	–	315	303
	43	68	–	–	1	–	–	–	56	71
	981	1,121	123	79	–	(6)	–	–	1,380	1,516
	27	37	(1)	–	–	–	–	–	26	42
	953	**1,085**	**124**	**79**	**–**	**(6)**	**–**	**–**	**1,353**	**1,474**

Consolidated financial statements *continued*

Global Life – Revenues by region

Table 29.8

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers		Life insurance deposits	
	2011	2010	**2011**	**2010**
North America				
United States	793	772	298	220
Subtotal North America	793	772	298	220
Latin America				
Chile	348	416	–	8
Argentina	36	33	44	37
Bolivia	12	10	12	10
Mexico	73	74	–	–
Venezuela	57	51	–	–
Brazil	148	86	218	99
Subtotal Latin America	674	670	274	154
Europe				
United Kingdom	1,539	1,519	6,359	4,726
Germany	3,273	3,695	2,234	2,541
Switzerland	1,964	1,542	106	57
Ireland[2]	573	510	2,036	2,547
Spain	1,344	2,264	1,560	2,157
Italy	361	351	841	828
Portugal	31	30	53	75
Austria	212	231	55	–
Subtotal Europe	9,296	10,143	13,244	12,931
Asia-Pacific and Middle East				
Hong Kong	89	79	146	169
Indonesia	1	–	–	–
Australia	304	242	79	87
Japan	101	90	22	22
Malaysia	85	–	–	–
Zurich International Life[1]	108	155	1,525	1,143
Subtotal Asia-Pacific and Middle East	687	566	1,771	1,421
Other				
Luxembourg[2]	4	3	541	656
International Group Risk Solutions[3]	66	58	–	–
Subtotal Other	70	61	541	656
Total	**11,520**	**12,212**	**16,127**	**15,382**

[1] Mainly includes business written through licenses into Asia-Pacific and Middle East
[2] Includes business written with freedom of service and freedom of establishment into Europe.
[3] Includes business written through licenses into all regions.

Table 29.9

Global Life – Non-current assets by region

in USD millions, as of December 31	Property/equipment and intangible assets	
	2011	2010
North America		
United States	174	193
Subtotal North America	174	193
Latin America		
Chile	21	20
Argentina	9	5
Mexico	1	1
Brazil	43	50
Subtotal Latin America	74	77
Europe		
United Kingdom	415	410
Germany	816	911
Switzerland	60	157
Ireland	3	5
Spain	1,833	1,991
Italy	244	148
Austria	6	6
Subtotal Europe	3,378	3,629
Asia-Pacific and Middle East		
Hong Kong	7	3
Indonesia	3	–
Australia	–	1
Japan	3	3
Malaysia	109	–
Zurich International Life	5	5
Subtotal Asia-Pacific and Middle East	127	11
Other		
Luxembourg	4	2
Subtotal Other	4	2
Total	**3,757**	**3,912**

Consolidated financial statements *continued*

Farmers – Overview

Table 29.10

in USD millions, for the years ended December 31	Total	
	2011	2010
Farmers Management Services		
Management fees and other related revenues	2,767	2,778
Management and other related expenses	1,434	1,440
Gross management result	1,333	1,338
Other net income (excl. items not included in BOP)	36	27
Business operating profit before non-controlling interest	1,370	1,365
Business operating profit	1,370	1,365
Farmers Re		
Gross written premiums and policy fees	3,529	4,194
Net earned premiums and policy fees	2,984	5,574
Insurance benefits and losses, net	(2,105)	(3,708)
Total net technical expenses	(903)	(1,733)
Net underwriting result	(23)	134
Net non-technical result (excl. items not relevant for BOP)	58	84
Net investment result income	82	104
Business operating profit before non-controlling interests	116	321
Business operating profit	116	321
Farmers business operating profit	**1,486**	**1,686**
Ratios, as % of net earned premiums and policy fees		
Farmers Re Combined ratio	100.8%	97.6%
Supplementary information		
Property, equipment and intangible assets	2,454	2,468

Consolidated financial statements *continued*

Other Operating Businesses – Overview

Table 29.11

in USD millions, for the years ended December 31	Holding & Financing[1]	
	2011	2010
Gross written premiums and policy fees	133	129
Net earned premiums and policy fees	74	76
Net investment income	489	500
Other income	94	80
Total BOP revenues	657	656
Insurance benefits and losses, incl. PH dividends, net	57	69
Underwriting and policy acquisition costs, net	15	5
Administrative and other operating expense (excl. depreciation/amortization)	170	184
Other expenses (excl. items not included in BOP)	(91)	17
Depreciation, amortization and impairments of property, equipment and intangible assets	3	–
Interest expense on debt	1,092	1,044
Business operating profit before non-controlling interests	(589)	(663)
Non-controlling interests	–	(1)
Business operating profit	**(589)**	**(663)**

[1] Includes the previously separately disclosed sub-segment “Alternative Investments”.

Headquarters		Eliminations		Total	
2011	2010	**2011**	2010	**2011**	2010
8	8	–	–	141	137
8	8	–	–	83	84
43	30	(8)	(5)	524	525
960	835	(134)	(131)	920	784
1,011	873	(141)	(136)	1,527	1,394
1	3	–	–	58	72
–	–	–	–	16	6
1,156	927	(133)	(130)	1,193	980
(5)	(3)	–	–	(96)	14
104	84	–	–	107	84
2	1	(9)	(5)	1,085	1,039
(246)	(138)	–	–	(835)	(802)
–	–	–	–	–	(1)
(246)	**(138)**	**–**	**–**	**(835)**	**(801)**

Consolidated financial statements *continued*

Non-Core Businesses – Overview

Table 29.12

in USD millions, for the years ended December 31	Total	
	2011	2010
Gross written premiums and policy fees	594	531
Net earned premiums and policy fees	(108)	502
Insurance benefits and losses, net	475	769
Policyholder dividends and participation in profits, net	133	496
Total net technical expenses	76	57
Net underwriting result	(792)	(821)
Net investment income	47	208
Net capital gains/(losses) and impairments on investments	944	624
Net non-technical result (excl. items not included in BOP)	(206)	(168)
Business operating profit before non-controlling interests	**(7)**	**(157)**
Non-controlling interests	1	1
Business operating profit	**(8)**	**(157)**

30. Significant subsidiaries

Significant subsidiaries

as of December 31, 2011	Domicile	Segment[1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Australia						
ZCM Asia Holdings Pty Limited	Sydney	Other Operating Businesses	100	100	AUD	172.1
Zurich Australia Limited	Sydney	Global Life	100	100	AUD	0.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Zurich Financial Services Australia Limited	Sydney	General Insurance	100	100	AUD	22.8
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance/Global Life	99.98	99.98	EUR	12.0
Bermuda						
Centre Group Holdings Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
ZCM Holdings (Bermuda) Limited	Hamilton	Non-Core Businesses	100	100	USD	137.0
ZG Investments Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
Zurich International (Bermuda) Ltd.	Hamilton	Non-Core Businesses	100	100	USD	9.9
Brazil						
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	General Insurance	100	100	BRL	370.8
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.98	98.98	CLP	24,484.0
Cyprus						
Zurich Insurance Holding (Cyprus) Ltd.[2]	Nicosia	General Insurance	100	100	RUB	3.4
Germany						
Deutscher Herold Aktiengesellschaft[3]	Bonn	Global Life	79.83	79.83	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt/Main	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	100	100	EUR	68.5
Ireland						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Financial Services EUB Holdings Limited	Dublin	Non-Core Businesses	100	100	GBP	0.001
Zurich Global Funding Limited	Dublin	Other Operating Businesses	100	100	EUR	0.001
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	8.2
Italy						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	74.0
Zurich Life and Pensions S.p.A.	Milan	Global Life	100	100	EUR	40.5
Zurich Life Insurance Italia S.p.A.	Milan	Global Life	100	100	EUR	85.9

[1] The segments are defined in the notes to the Consolidated financial statements, note 29, Segment information.
[2] Zurich Insurance Holding (Cyprus) Limited holds indirectly 99.9% of Zurich Insurance Company Limited in Russia which is a wholly owned subsidiary of the Group.
[3] In addition buy out options exist which allow the minority shareholders to sell 15.17 percent of the shares of Deutscher Herold Aktiengesellschaft to the Group.

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Significant subsidiaries (continued)

as of December 31, 2011	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Luxembourg						
Zurich Eurolife S.A.	Bertrange	Global Life	100	100	EUR	20.0
Zurich Finance (Luxembourg) S.A.	Luxembourg	Other Operating Businesses	100	100	EUR	0.1
Malaysia						
Malaysian Assurance Alliance Berhad	Kuala Lumpur	Global Life/General Insurance	100	100	MYR	579.0
South Africa						
Zurich Insurance Company South Africa Limited[4]	Johannesburg	General Insurance	58.95	58.95	ZAR	3.0
Spain						
Bansabadell Pensiones, E.G.F.P, S.A.	Barcelona	Global Life	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Barcelona	General Insurance	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros y Reaseguros	Barcelona	Global Life	50	50	EUR	43.9
ZS Insurance America, S.L.[5]	Madrid	Global Life/General Insurance	51	51	EUR	177.0
Zurich Latin America Holding S.L. – Sociedad Unipersonal[5]	Barcelona	Other Operating Businesses	100	100	EUR	43.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Global Life	100	100	EUR	56.4
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	17.0
Zurich Insurance Company Ltd[6]	Zurich	Other Operating Businesses	100	100	CHF	825.0
Zurich Life Insurance Company Ltd[7]	Zurich	Other Operating Businesses	100	100	CHF	60.0
"Zurich" Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	99.73	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	Istanbul	General Insurance	100	100	TRY	133.8
United Kingdom						
Allied Zurich Holdings Limited	Jersey, Channel Islands	Other Operating Businesses	100	100	GBP	90.7
Eagle Star Insurance Company Limited	Fareham, England	Non-Core Businesses	100	100	GBP	25.0
Sterling ISA Managers Limited	Swindon, England	Global Life	100	100	GBP	92.9
Zurich Assurance Ltd	Swindon, England	Global Life	100	100	GBP	236.1
Zurich Financial Services (UKISA) Limited	Swindon, England	Other Operating Businesses	100	100	GBP	1,492.1
Zurich Holdings (UK) Limited	Fareham, England	Other Operating Businesses	100	100	GBP	137.3
Zurich International Life Limited	Douglas, Isle of Man	Global Life	100	100	GBP	105.6
Zurich Specialties London Limited	Fareham, England	Non-Core Businesses	100	100	GBP	150.0

[4] Listed on the Johannesburg Stock Exchange. On December 31, 2011, the company had a market capitalization of ZAR 2.2 billion (ISIN Number 000094496).
[5] Represents the Group's newly acquired Santander insurance operations in Latin America (see note 5). The results of the operating activities will be included in the Global Life and General Insurance segments, whereas the headquarter's activities will be included in Other Operating Businesses.
[6] The results of the operating activities are included in the General Insurance segment, whereas the headquarter's activities are included in Other Operating Businesses.
[7] The results of the operating activities are included in the Global Life segment, whereas the headquarter's activities are included in Other Operating Businesses.

Significant subsidiaries (continued)

as of December 31, 2011	Domicile	Segment	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
United States of America						
Farmers Group, Inc.	Reno, NV	Farmers	100	100	USD	0.001
Farmers New World Life Insurance Company	Mercer Island, WA	Global Life	100	100	USD	6.6
Farmers Reinsurance Company	Los Angeles, CA	Farmers	100	100	USD	58.8
Farmers Services LLC[8]	Wilmington, DE	Farmers	100	100	USD	–
Zurich American Corporation	Wilmington, DE	Non-Core Businesses	100	100	USD	0.00001
Zurich American Life Insurance Company	Schaumburg, IL	Global Life/Non-Core Businesses	100	100	USD	2.5
ZFS Finance (USA) LLC V[8]	Wilmington, DE	Other Operating Businesses	100	100	USD	–
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD	5.0
Zurich Finance (USA), Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	0.000001
Zurich Holding Company of America, Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	20.2

[8] These entities are LLCs and have no share capital.

Financial information

Consolidated financial statements *continued*

31. Events after the balance sheet date

On January 11, 2012, the Group announced the successful placement of USD 500 million of undated Capital Notes (hybrid capital), first callable in 2018, primarily to investors in the Asian market. The hybrid capital has been issued by Zurich Insurance Company Ltd under the EMTN Programme. The coupon has been set at 8.25 percent.

Report of the Statutory Auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Financial Services Ltd

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Zurich Financial Services Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity, and notes (pages 104 to 144 and 153 to 278), for the year ended December 31, 2011.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Richard Burger Audit expert Auditor in charge	Patrick Shouvlin Global relationship partner

Zurich, February 15, 2012

Consolidated financial statements *continued*

Disclaimer & Cautionary Statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predications of or indicate future events, trends, plans or objectives of Zurich Financial Services Ltd or the Zurich Financial Services Group (the "Group"). Forward-looking statements include statements regarding the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding the Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Financial Services Ltd or the Group to differ materially from those expressed or implied in the forward looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of a global economic downturn, in the financial services industries in particular; (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; and (viii) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of Zurich Financial Services Ltd and its Group and on whether the targets will be achieved. Zurich Financial Services Ltd undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

It should be noted that past performance is not a guide to future performance.

Persons requiring advice should consult an independent adviser.

This communication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

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