ZURICH

Consolidated financial statements 2012

Zurich Insurance Group
Annual Report 2012

Consolidated financial statements

Contents

Consolidated income statements

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

Financial information

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

Consolidated financial statements *continued*

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges
2011			
Comprehensive income for the period, as restated	3,750	332	176
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		866	207
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(644)	53
Deferred income tax (before foreign currency translation effects)		113	(71)
Foreign currency translation effects		(4)	(13)
2012			
Comprehensive income for the period	3,878	1,724	6
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,875	32
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(1,724)	(35)
Deferred income tax (before foreign currency translation effects)		(514)	4
Foreign currency translation effects		87	6

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

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

Consolidated financial statements *continued*

Consolidated balance sheets

Assets

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

[1] As of December 31, 2012 included land and buildings formerly classified as real estate held for investment and held for own use amounting to USD 89 million and USD 10 million, respectively. As of December 31, 2011 there are assets relating to the sale of a company in Bolivia (see note 5).

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

Liabilities and equity

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

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

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

Consolidated financial statements *continued*

Consolidated statements of cash flows

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

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

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

Cash and cash equivalents

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

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

Consolidated financial statements *continued*

Consolidated statements of changes in equity

in USD millions	Share capital	Additional paid-in capital	Net unrealized gains/(losses) on available-for-sale investments
Balance as of December 31, 2010, as previously reported	10	11,630	2,468
Total adjustments due to restatement	–	–	–
Balance as of December 31, 2010, as restated	10	11,630	2,468
Issuance of share capital[1]	–	211	–
Dividends to shareholders[2]	–	(1,912)	–
Redemption of preferred shares[4]	–	(15)	–
Share-based payment transactions	–	22	–
Treasury share transactions[5]	–	(30)	–
Total comprehensive income for the period, net of tax	–	–	332
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*332*
Cash flow hedges	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Revaluation reserve	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of December 31, 2011	10	9,907	2,800
Balance as of December 31, 2011, as previously reported	10	9,907	2,800
Total adjustments due to restatement	–	–	–
Balance as of December 31, 2011, as restated	10	9,907	2,800
Issuance of share capital[1]	–	221	–
Dividends to shareholders[3]	–	(1,923)	–
Share-based payment transactions	–	(34)	–
Treasury share transactions[5]	–	2	–
Change in ownership interests with no loss of control	–	–	–
Total comprehensive income for the period, net of tax	–	–	1,724
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*1,724*
Cash flow hedges	–	–	–
Cumulative foreign currency translation adjustment	–	–	–
Net actuarial gains/(losses) on pension plans	–	–	–
Net changes in capitalization of non-controlling interests	–	–	–
Balance as of December 31, 2012	**11**	**8,172**	**4,523**

[1] The number of common shares issued as of December 31, 2012 was 148,300,123 (December 31, 2011: 147,385,822; December 31, 2010: 146,586,896).
[2] As approved by the Annual General Meeting on March 31, 2011, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 795 million between the dividend at transaction day exchange rates amounting to USD 2,706 million and the dividend at historical exchange rates amounting to USD 1,912 million is reflected in the cumulative foreign currency translation adjustment.
[3] As approved by the Annual General Meeting on March 29, 2012, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 840 million between the dividend at transaction day exchange rates amounting to USD 2,763 million and the dividend at historical exchange rates amounting to USD 1,923 million is reflected in the cumulative foreign currency translation adjustment.
[4] Zurich RegCaPS Funding Trusts II, V and VI redeemed USD 575 million of Trust Capital Securities II, V and VI on March 30, 2011 (Series II), on April 4, 2011 (Series V) and on April 25, 2011 (Series VI) respectively.
[5] The number of treasury shares deducted from equity as of December 31, 2012 amounted to 1,348,395 (December 31, 2011: 1,373,392; December 31, 2010: 1,399,080).

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

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

Consolidated financial statements *continued*

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

Zurich Insurance Group Ltd (formerly known as Zurich Financial Services Ltd), a Swiss corporation, is the holding company of the Group and is listed on the SIX Swiss Exchange. Zurich Insurance Group Ltd was incorporated on April 26, 2000, in Zurich, Switzerland. It is recorded in the Commercial Register of the Canton of Zurich under its registered address at Mythenquai 2, 8002 Zurich. On April 4, 2012, Zurich Financial Services Ltd was renamed to Zurich Insurance Group Ltd in line with the streamlining of its business to concentrate on insurance. The Swiss regulator FINMA and the Joint Committee of the European Supervisory Authority have also re-designated the Group from an insurance conglomerate to an insurance group. Throughout this document, Zurich Insurance Group Ltd is used consistently even if reference is made to facts that occurred prior to the renaming of the Company.

On February 13, 2013 the Board of Directors of Zurich Insurance Group Ltd authorized these Consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on April 4, 2013.

1. Basis of presentation

General information

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

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

Disclosures under IFRS 4 "Insurance Contracts" and IFRS 7 "Financial Instruments: Disclosures" relating to the nature and extent of risks, and capital disclosures under IAS 1 "Presentation of Financial Statements" have been included in the Risk Review on pages 111 to 161, and they form an integral part of the Consolidated financial statements.

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

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

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

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

Maturity tables have been provided for the following balances: reserves for insurance contracts (tables 20a and 20b in the Risk review), liabilities for investment contracts (tables 21a and 21b in the Risk review), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), collateralized loans (table 15), other financial liabilities (table 19.2) and outstanding debt (table 21.4).

All amounts in the Consolidated financial statements, unless otherwise stated, are shown in USD, rounded to the nearest million with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than rounded amounts.

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

Principal exchange rates

Table 1.1

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

Restatements and reclassifications

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

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

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

Consolidated financial statements *continued*

acquisition costs and deferred origination costs are set out in notes 8, 9 and 12.

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

Restatement of the consolidated income statement

Table 1.2

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

Restatement and reclassifications of the consolidated balance sheet

Table 1.3

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

Consolidated financial statements *continued*

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early adopted as of January 1, 2012 and relevant for the Group's operations

The following amendments to accounting standards and interpretations of standards relevant to the Group have been implemented for the financial year beginning January 1, 2012. The impact of adoption on the Group's Consolidated financial statements is disclosed in table 2.1.

Table 2.1

Standard/Interpretation

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

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

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

The following standards, amendments and interpretations of existing published standards are not yet effective but are relevant to the Group's operations. The expected impact of these standards, amendments, and interpretations on the Group's Consolidated financial statements are disclosed in table 2.2. In addition to the standards and amendments listed in table 2.2 the Group will also have to incorporate amendments resulting from the IASB annual improvements project, which relate primarily to disclosure enhancements.

Table 2.2

Standard/Interpretation

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

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

3. Summary of significant accounting policies

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

a) Consolidation principles

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

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

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

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

b) Foreign currency translation and transactions

Foreign currency translation

Due to the Group's economic exposure to the U.S. dollar (USD), the presentation currency of the Group's consolidated financial statements is USD. Many Group companies use a different functional currency, being the currency of the respective primary economic environment in which these companies operate. Assets and liabilities are translated into the presentation currency at end-of-period exchange rates, while income statements and statements of cash flows are translated at average exchange rates for the period. The resulting translation differences are recorded directly in other comprehensive income (OCI) as cumulative translation adjustments.

Foreign currency transactions and balances

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

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

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

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

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

Classification

Contracts issued under which the Group accepts significant insurance risk and obligations arising from investment

Consolidated financial statements *continued*

contracts with DPF are accounted for as insurance contracts.

The Group also issues products containing embedded options that entitle the policyholder to switch all or part of the current and future invested funds into another product issued by the Group. Where this results in the reclassification of an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are also reclassified and are accounted for in accordance with the accounting policy to be applied to the new product on a prospective basis. As a consequence, no gain or loss is recognized as a result of the reclassification of a contract from investment to insurance.

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

Premiums

General insurance

Premiums from the sale of short-duration general insurance products are recorded when written and normally are accreted to earnings in relation to the insurance coverage provided. The unearned premium reserve represents the portion of the premiums written relating to the unexpired coverage period.

Life insurance

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

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

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

Reserves for losses and loss adjustment expenses

Losses and loss adjustment expenses are charged to income as incurred. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. The Group does not discount its loss reserves, other than for settled claims with fixed payment terms. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed.

Reserves for life benefits

Future life policyholders' benefits represent the estimated future benefit liability for traditional life insurance policies and include the value of accumulated declared bonuses or dividends that have vested to policyholders.

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

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

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

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

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

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

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

Deferred acquisition costs (DAC)

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

General insurance

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

Life insurance

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

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

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

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

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

Liability adequacy tests

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

General insurance

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

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

Consolidated financial statements *continued*

of contracts is written down by the amount of the deficiency. If, after writing down the DAC or PVFP to nil, a deficiency still exists for the respective grouping of contracts, the reserve for life benefits is increased by the amount of the remaining deficiency.

Reinsurance

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

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

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

Reinsurance assets are assessed for impairment on a regular basis for any events that may trigger impairment. If a reinsurance asset is impaired, the carrying amount of the asset is reduced to its recoverable amount, through the use of an allowance account, and the amount of the impairment loss is recognized in income. If a decrease in the impairment loss can be related objectively to an event occurring after the impairment loss was initially recognized, the impairment loss is reversed through income.

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

d) Liabilities for investment contracts (without DPF)

Investment contracts are those contracts that transfer no significant insurance risk. The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

Unit-linked investment contracts

These represent portfolios maintained to meet the specific investment objectives of policyholders who bear the credit, market and liquidity risks related to the investments. The liabilities are carried at fair value, with fair value being determined by reference to the underlying financial assets and changes in fair value are recorded in income. The related assets for unit-linked investment contracts are classified as designated at fair value through profit or loss in order to reduce measurement inconsistencies.

The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against the policyholders' account balances are included in policy fee revenue.

Investment contracts at amortized cost

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

Deferred origination costs (DOC)

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

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

Categories and measurement of investments (excluding derivative financial instruments)
Financial assets are classified as available for sale, financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables.

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

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

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

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

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

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

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

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

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

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are not classified in any of the other categories.

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

Other items
Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments that are readily convertible into cash and are subject to an insignificant risk of change in fair value, for example, 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.

Consolidated financial statements *continued*

Real estate held for investment is initially recorded at cost (including transaction costs) and is subsequently measured at fair value with changes in fair value recognized in income. The gain or loss on disposal of real estate held for investment is the difference between the net proceeds received and the carrying amount of the investment and is recognized in the consolidated income statement when the disposal is completed.

Impairment of financial assets (excluding derivative financial instruments)

General

The Group assesses at each reporting date whether there is objective evidence that loss events occurred which negatively affect the estimate future cash flows of a financial asset or group of financial assets.

Available-for-sale financial assets

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

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

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

Held-to-maturity investments and loans and receivables

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

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

f) Derivative financial instruments and hedge accounting

Derivative financial instruments, except those designated under a qualifying hedge relationship are classified as held for trading assets or liabilities and carried at fair value on the balance sheet with changes in fair value recognized in income. Derivative financial instruments include embedded derivative features which are assessed at inception of the contract and, depending on their characteristics, are measured and presented as separate derivative financial instruments.

Derivative financial instruments that qualify for hedge accounting

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

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

All hedge relationships are formally documented, including the risk management objectives and strategy for undertaking hedge transactions. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed in order to determine whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk. If these conditions are not met, then the relationship does not qualify for hedge accounting, in which case the hedging instrument and the hedged item are reported independently in accordance with the respective accounting policy as if there was no hedging designation. Where hedge accounting conditions are met, the accounting treatments are as follows:

Fair value hedges
Gains or losses from re-measuring the derivative financial instruments that are designated and qualify as fair value hedges are recognized immediately in the same line item of the consolidated income statement as the offsetting change in fair value of the hedged item attributable to the risk being hedged.

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

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

g) Borrowings

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

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

h) Derecognition of financial assets and liabilities

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

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

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

Securities lending

Certain entities within the Group participate in securities lending arrangements whereby specific securities are loaned to other institutions, primarily banks and brokerage firms, for short periods of time. Under the terms of the securities

Consolidated financial statements *continued*

lending agreements, the Group retains substantially all the risks and rewards of ownership of these loaned securities, and also retains contractual rights to the cash flows therefrom. These securities are therefore not derecognized from the Group's balance sheet. Cash received as collateral for loaned securities is recorded as an asset and a corresponding liability is established.

Repurchase and reverse repurchase transactions

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

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

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

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

i) Property and equipment

Buildings held for own use and equipment are carried at cost less accumulated depreciation and any accumulated impairment loss. These assets are depreciated usually on a straight-line basis to income over the following estimated useful lives:

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

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

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets are grouped on a cash generating unit (CGU) level if the recoverable amount cannot be separately determined.

j) Intangible assets

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

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

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

Goodwill

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

Goodwill on the acquisition of subsidiaries is capitalized as a separate line and reviewed for impairment annually, or more frequently if impairment indicators are observed. For the purpose of impairment testing, goodwill is allocated to cash generating units (CGU) based on the level at which management monitors operations and makes decisions relating to the continuation or disposal of assets and operations. On this basis, as of January 1, 2011, the Group aggregates CGUs on a General Insurance segment level. Within the segments Global Life and Farmers, CGUS are identified at either business unit level or individual reporting entity level.

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

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

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

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

Attorney-in-fact relationships (AIF)

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

Distribution agreements

Distribution agreements may have useful lives extending up to 30 years which are estimated based on the period of time over which they are expected to provide economic benefits, but no longer than the contractual term, after taking into account all economic and legal factors such as stability of the industry, competitive position and the period of control over the assets.

Software

Costs associated with research and maintenance of internally developed computer software are expensed as incurred. Costs incurred during the development phase are capitalized. Software under development is tested for impairment annually.

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

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

k) Provisions, contingent liabilities, commitments and financial guarantees

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

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

Consolidated financial statements *continued*

l) Treasury shares

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

m) Other revenue recognition

Farmers management fees

FGI provides non-claims related management services to the Farmers Exchanges, including risk selection, preparation and mailing of policy forms and invoices, premium collection, management of the investment portfolios and certain other administrative and managerial functions. Fees for these management services are primarily determined as a percentage of gross premiums earned by the Farmers Exchanges.

Other fees and commission income

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

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

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

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

n) Net investment income

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

Investment income

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

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

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

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

Investment expenses

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

o) Employee benefits

Share-based compensation and cash incentive plans

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

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

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

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

Retirement benefits

Contributions to defined contribution plans are recorded as an expense in the period in which the economic benefit from the employees' service was received.

Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Group's expense relating to these plans is accrued over the employees' service periods based upon the actuarially determined cost for the period. Actuarial gains and losses are recognized in full in the period in which they occur and are presented on a separate line in the consolidated statement of comprehensive income. To the extent that past service costs are vested, they are recognized immediately. Unrecognized past service costs represent past service costs not yet vested, and are recognized on a straight-line basis over the average vesting period.

Other post-employment benefits

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

p) Leases

Payments made under operating leases (net of any incentives received from the lessor) are normally charged to income on a straight-line basis over the period of the lease.

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

q) Income taxes

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

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

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

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

Consolidated financial statements *continued*

4. Critical accounting judgments and estimates

The application of certain accounting policies necessitates critical accounting estimates that involve discretionary judgments and the use of assumptions which are susceptible to change due to inherent uncertainties. Because of the uncertainties involved, actual results could differ significantly from the assumptions and estimates made by management. Such critical accounting estimates are of significance to insurance reserves and deferred acquisition costs, the determination of fair value for financial assets and liabilities, the determination of fair values of assets and liabilities attributable to business combinations, impairment charges, deferred taxes and employee benefits.

a) Reserves for insurance contracts and deferred acquisition costs

The Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the Group's general insurance products and the run-off of its former third party reinsurance operations. These reserves represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the balance sheet date. The Group establishes its reserves by product line, type and extent of coverage and year of occurrence. There are two categories of loss reserve: reserves for reported losses and reserves for incurred but not reported (IBNR) losses. Additionally, reserves are held for loss adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

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

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

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

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

The Group uses a number of accepted actuarial methods to estimate and evaluate the amount of reserves recorded. The nature of the claim being reserved for and the geographic location of the claim influence the techniques used by the Group's actuaries. Additionally, the Group's Corporate Center actuaries perform periodic reserve reviews of the Group's businesses throughout the world. Management considers the results of these reviews and adjusts its reserves for losses and loss adjustment expenses, where necessary.

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

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

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

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

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

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

Deferred policy acquisition costs are deferred only to the extent that they are recoverable from future policy income. Recoverability is tested at contract inception and subsequently on a regular basis with reference to current expectations of future profits or margins.

See note 8 for further information on reserves for insurance contracts and note 12 for deferred policy acquisition costs. Also refer to the insurance risk section of the Risk Review.

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

In determining the fair values of available-for-sale financial assets and financial assets at fair value through profit or loss, the Group makes extensive use of third party pricing providers and only in rare cases places reliance on prices that are derived from internal models. One of the objectives of the Group's control environment and the process of selection of pricing providers is to ensure that fair values of investments are sourced only from independent, reliable and reputable third party pricing providers that have proper processes and controls in place to guarantee that the price quality meets the high standards that the Group expects.

In addition, the Group's policy is to ensure that independently sourced prices are developed by making maximum use of current observable market inputs derived from orderly transactions and by employing widely accepted valuation techniques and models. When third party pricing providers are unable to obtain adequate observable information for a particular financial instrument, the fair value is determined either requesting selective non-binding broker quotes or using internal valuation models.

Consolidated financial statements *continued*

Investment accounting, operations and process functions, are completely independent from those responsible for buying and selling the assets, and are responsible for receiving, challenging and verifying values provided by third party pricing providers to ensure that fair values are reliable and comply with applicable accounting and valuation policies. The quality control procedures used depend on the nature and complexity of the invested assets and include regular reviews of valuation techniques and inputs used by pricing providers (for example, default rates of collateral for asset backed securities), variance and stale price analysis and comparisons with fair values of similar instruments and with alternative values obtained from asset managers and brokers.

Fair values of debt instruments issued by government entities and corporate entities are obtained from third party pricing providers. The fair value received from these pricing providers may be based on quoted prices in an active market for identical assets, alternative pricing methods such as matrix pricing or alternatively, based on an income approach employing discounted cash flow models.

Fair values of equity securities are generally based on quoted prices in an active market (i.e., exchange or dealer market) for identical assets. If such quoted prices are not available, then fair values are estimated on the basis of information from external pricing providers or internal pricing models (for example, discounted cash flow models or other recognized valuation techniques).

The Group holds certain asset classes that are not actively traded, in particular hedge funds and private equity investments. Fair values of such instruments are obtained from net asset value information and audited financial statements provided by the issuing hedge funds and private equity funds. Performance of these investments and determination of their fair value are monitored closely by the Group's in-house investment professionals.

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

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

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

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

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

Fair value of real estate held for investment is based on valuations performed annually by internal valuation specialists and generally on a rotation basis at least once every three years by an independent qualified appraiser. The valuation methods applied are income capitalization, discounted cash flow analysis, and market comparables taking into account the actual letting status and observable market data.

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

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

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

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

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

d) Impairment of assets
Assets are subject to regular impairment reviews under the relevant IFRS standard.

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

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

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

CGUs are defined separately for the three main business segments, General Insurance, Global Life and Farmers. General Insurance and Farmers are considered as single worldwide CGUs. For Global Life CGUs are defined on a lower level in line with management's view of the business.

The discount rates used in the recoverable amount calculations for developed markets are based on the capital asset pricing model and consider government bond rates which are further adjusted for equity risk premium, appropriate beta and leverage ratio. In emerging markets, discount rates are based on the U.S. dollar discount rate taking into account inflation differential expectations and country risks. All input factors to the discount rates are based on observable market data.

The recoverable amount of the intangible assets with an indefinite life related to the Farmers segment (i.e. attorney-in-fact (AIF) relationships and goodwill) is determined on the basis of value-in-use calculations. These calculations use cash flow projections based on business plans which are approved by management and typically cover a three-year period.

Table 4.1 sets out the applied discount rates and the perpetual nominal growth rates (PGR) beyond the projection period which are dependent on country specific growth rate and inflation expectations for the major CGUs.

Consolidated financial statements *continued*

Table 4.1

Discount and perpetual growth rates for Goodwill by major CGUs

	Segment	in USD millions	Discount rates in % 2012	Discount rates in % 2011	Perpetual nominal growth rate in % 2012	Perpetual nominal growth rate in % 2011
Farmers	Farmers	819	8.5	8.3	–	–
General Insurance	GI	852	8.0	7.9	2.1	–
Global Life Germany	Life	275	6.7	7.1	2.0	2.0
Zurich Assurance Ltd and Openwork Holdings Ltd	Life	109	5.9	5.8	–	–

Sensitivity tests have been performed on goodwill and typically comprised of an analysis for a decrease in cash flows of up to 30 percent, a decrease in the perpetual growth rate of up to 1.0 percentage point or an increase in the discount rate of up to 3.5 percentage points in order to reflect current adverse market conditions. No impairments were identified on this basis.

Distribution agreements

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

The discount rates used in the recoverable amount calculations for developed markets are based on the capital asset pricing model and consider government bond rates which are further adjusted for equity risk premium, appropriate beta and leverage ratio. In emerging markets, discount rates are based on the U.S. dollar discount rate taking into account inflation differential expectations and country risks. All input factors to the discount rates are based on observable market data.

Table 4.2 sets out the applied discount rates and the PGR beyond the projection period which are dependent on country specific growth rate and inflation expectations for the major distribution agreements.

Table 4.2

Discount and perpetual growth rates by major distribution agreements

	in USD millions	Range of discount rates in % 2012	Range of discount rates in % 2011	Perpetual nominal growth rate in % 2012	Perpetual nominal growth rate in % 2011
Banco Sabadell S.A. entities in Spain	1,763	9.0	4.8–8.3	2.5	2.5
Banco Santander S.A. entities in Latin America	1,852	7.8–20.1	n/a	n/a	n/a

For impairment testing purposes these distribution agreements are assessed as single assets by counterparty.

Sensitivity tests have been performed on distribution agreements and typically comprised of an analysis for a decrease in cash flows, a decrease in the perpetual growth rate or an increase in the discount rate, applying reasonably possible changes. No impairments were identified on this basis.

In light of the current economic conditions in Spain the Group, in particular, monitors whether the actual performance of the distribution agreements with Banco Sabadell S.A. are in line with the business plans.

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

e) Deferred taxes

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

See note 20 for further information on deferred taxes.

f) Employee benefits

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

See note 23 for further information on employee benefits.

Consolidated financial statements *continued*

5. Acquisitions and divestments

Transactions in 2012

Acquisitions

On May 25, 2012, the Group increased its shareholding in Zurich Insurance Company South Africa Limited, a partially owned subsidiary, to 84.05 percent by purchasing a 25.1 percent shareholding from Royal Bafokeng Finance (Pty) Limited (RBF) for a purchase price of approximately USD 75 million. With this purchase of 25.1 percent the Group's controlled interest for the Consolidated financial statements is now in line with its legal ownership. The put option right granted to RBF in 2010 to sell back its entire shareholding to the Group also ceased to exist.

Divestments and loss of control

The Group lost control over one of its subsidiaries and consequently derecognized the assets and liabilities at their carrying value and recognized its retained investment in this entity as an equity security classified as available-for-sale as of September 30, 2012. A USD 38 million pre-tax loss has been recorded within net gain/(loss) on divestments of businesses.

Transactions in 2011

Acquisitions

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

The initial consideration paid by the Group amounted to approximately USD 1.2 billion, subject to an estimated purchase price adjustment of USD 23 million for the purchase accounting as reflected in the Consolidated financial statements as of acquisition dates. Subsequently such estimated purchase price adjustment has decreased immaterially. The Group is still in the process of finalizing the purchase price adjustment. The Group and Santander have also entered into long term loan agreements with one of the acquired companies, whereby total funds of USD 511 million were provided in line with the shareholdings of the Group and Santander. In addition to the initial consideration, both an earn-out component based on the future profitability under the distribution agreements and a protection mechanism for the Group's initial consideration, which is based on a similar future profitability criterion, were agreed. Under the earn-out arrangement, payments are scheduled to be made after every five year period starting January 1, 2011 until December 31, 2035 by the Group, subject to the achievement of the profitability criterion. The earn-out payments which are denominated in local currency, are scheduled to increase over the 25 year period up to a cumulative maximum total amount of USD 1.6 billion, based on acquisition foreign exchange rates. On a present value basis the cumulative maximum earn-out payments amount to USD 334 million. The fair value of the earn-out liability as of acquisition date was estimated to amount to USD 99 million and was derived by a probability weighting of different profitability scenarios and by applying a local currency based discount rate.

Since acquisition the Group had in particular reassessed the value of technical reserves in Brazil, Chile and Mexico, deferred acquisition costs in Mexico and Chile and present value of future profits in Brazil, Mexico and Chile based on better available data as of the acquisition date. Total assets, including identifiable intangible assets for Global Life and General Insurance as of the acquisition dates, have been revised to USD 16.8 billion and total liabilities have been revised to USD 13.9 billion. These amounts have been allocated to individual balance sheet line items and exclude amounts reported in Other Operating Businesses. The initially recorded assets and liabilities in the Group's Consolidated financial statements 2011 have been restated as set out in note 1. The identifiable intangible assets, gross of deferred tax, comprise the value of the distribution agreements in Brazil, Argentina, Mexico and Chile amounting to USD 2.0 billion and the present value of future profits (PVFP) of acquired insurance contracts for the life insurance businesses in Brazil, Mexico and Chile of USD 309 million. Based on these numbers, the residual goodwill amounts to nil. The value of the distribution agreements and PVFP were determined on the basis of country specific in-force data, transaction projections and assumptions. The non-controlling interests are valued proportionately to the purchase price paid by the Group.

Acquisition related costs of USD 24 million were included in other administrative expenses for the year ended December 31, 2011, and were excluded from business operating profit.

Table 5.1 shows the main balance sheet line items as of the acquisition dates, representing the fair value of the Zurich Santander companies acquired.

Business combinations

Table 5.1

in USD millions, as of acquisition dates	Global Life	General Insurance	Other Operating Businesses	Total
Total Group Investments	2,959	380	3	3,342
Cash and cash equivalents	127	6	3	136
Equity securities	1,290	139	–	1,429
Debt securities	1,461	209	–	1,670
Real estate held for investment	4	–	–	4
Other loans	77	26	–	103
Investments for unit-linked contracts	9,616	–	–	9,616
Total investments	**12,575**	**380**	**3**	**12,958**
Reinsurers' share of reserves for insurance contracts	11	227	–	238
Deferred policy acquisition costs	573	67	–	640
Receivables and other assets	393	290	–	683
Distribution agreement, gross of deferred tax	1,670	337	–	2,007
Present value of future profits, gross of deferred tax	309	–	–	309
Assets acquired	15,532	1,301	3	16,835
Liabilities for investment contracts	(309)	–	–	(309)
Reserves for insurance contracts	(11,775)	(391)	–	(12,166)
Other liabilities	(540)	(297)	–	(837)
Deferred tax liabilities	(491)	(108)	–	(599)
Senior and subordinated debt	–	–	(511)	(511)
Liabilities acquired	(13,114)	(796)	(511)	(14,422)
Net assets acquired	2,417	504	(508)	2,413
Non-controlling interests				(1,183)
Total acquisition costs				1,231
Cash consideration				1,156
Fair value of contingent consideration				99
Preliminary purchase price adjustment				(23)

The financial result for the period from the acquisition dates to December 31, 2012 is included in the Group's consolidated income statement for the year ended December 31, 2012. The main income statement information for Zurich Santander is shown in table 5.2.

Consolidated financial statements *continued*

Table 5.2

Income statement information

in USD millions	Global Life	General Insurance	Core business total	Other Operating Businesses	Total
Information from acquisition to December 31, 2012					
Life insurance deposits	2,461	–	2,461	–	2,461
Gross written premiums and policy fees	2,050	720	2,770	–	2,770
Total BOP revenues	3,214	456	3,669	(18)	3,651
Business operating profit before non-controlling interests	246	120	367	(43)	323
Business operating profit after non-controlling interests	126	61	187	(22)	165
Net income after taxes before non-controlling interests					220
Net income after taxes after non-controlling interests					112
Pro forma 2011 information[1]					
Gross written premium for 12 months	2,326	677	3,003	n/a	3,003
Net income after taxes for 12 months					372

1 Based on local GAAP information, as full year IFRS information is not available. The information is deemed to be a reasonable approximation but excludes the amortization of identifiable intangible assets and PVFP.

On September 30, 2011, the Group completed the acquisition of 100 percent of Malaysian Assurance Alliance Berhad, now known as Zurich Insurance Malaysia Berhad (ZIMB), a composite insurer based in Malaysia, together with 100 percent of four related services companies. The acquisition of ZIMB is aligned with the Group's emerging-market strategy of expanding the Group's presence in the Asia-Pacific region. The total preliminary purchase price of USD 138 million (initially USD 135 million) included an initial consideration of USD 108 million and an anticipated purchase price adjustment amounting to USD 30 million (initially USD 27 million). As of December 31, 2012, out of the initial consideration of USD 108 million, USD 63 million (initially USD 56 million) had been paid in cash, USD 45 million (initially USD 30 million) was placed in escrow and initially an amount of USD 22 million had been retained by the Group. The Group is still in the process of finalizing the purchase price adjustment. The amount in escrow is to be held for a period of two years. Based on the final purchase accounting the fair value of net tangible assets acquired amounted to USD 102 million (initially USD 113 million) and identifiable intangible assets, net of deferred tax, amounted to USD 19 million which mainly consisted of the PVFP of the acquired insurance contracts. Residual goodwill amounted to USD 17 million (initially USD 3 million), partly reflecting the future growth opportunities. In addition, the Group has injected approximately USD 135 million of capital into ZIMB immediately following the completion of the acquisition to meet regulatory capital requirements.

On July 12, 2011, as part of its preparations for local regulatory changes, the Group completed the acquisition of 75.0 percent of 2Plan Group Limited, an independent financial advice firm based in the UK. The total purchase price for the acquisition amounted to zero. The remaining 25.0 percent shareholding continues to be held by members of the founder management team who have options to sell their shareholdings to the Group at a price contingent upon the achievement of future profit targets by 2Plan Group Limited. Based on the final purchase accounting the tangible net assets acquired amounted to negative USD 5 million and identifiable intangible assets, net of deferred tax, amounted to USD 2 million consisting of software and capitalized recruitment director fees. Goodwill amounted to USD 3 million (initially USD 4 million) and reflects the future value from the Group's improved independent financial advisor proposition and technology offering in the UK.

Divestments

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

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

6. Investments

Total investments includes Group investments and investments for unit-linked products. Group investments are those for which the Group bears part or all of the investment risk. They also include investments related to investment contracts with discretionary participation features. Investments for unit-linked products include such investments where the policyholder bears the investment risk, and are held for liabilities related to unit-linked investment contracts and reserves for unit-linked insurance contracts. They are managed in accordance with the investment objectives of each unit-linked fund.

Investment result for total investments

Table 6.1a

in USD millions, for the years ended December 31	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2012	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents	60	65	(4)	10	56	75
Equity securities	1,796	1,819	8,961	(5,193)	10,757	(3,374)
Debt securities	5,395	5,684	2,552	1,158	7,947	6,842
Real estate held for investment	816	859	(331)	(33)	485	825
Mortgage loans	428	494	(100)	(135)	328	358
Other loans	792	873	17	202	810	1,075
Investments in associates and joint ventures	18	12	1	(45)	18	(33)
Derivative financial instruments[1]	–	–	(463)	918	(463)	918
Investment result, gross	9,307	9,805	10,632	(3,119)	19,939	6,685
Investment expenses	(760)	(863)	–	–	(760)	(863)
Investment result, net	**8,547**	**8,942**	**10,632**	**(3,119)**	**19,179**	**5,823**

[1] Net capital losses on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD 7 million and USD 13 million for the years ended December 31, 2012 and 2011, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 194 million and USD 203 million for the years ended December 31, 2012 and 2011, respectively.

Consolidated financial statements *continued*

Investment result for Group investments

Table 6.1b

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments and impairments		Investment result	
	2012	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents	44	62	1	1	45	63
Equity securities	331	329	549	311	879	641
Debt securities	5,096	5,375	1,968	923	7,064	6,297
Real estate held for investment	506	531	12	46	517	576
Mortgage loans	428	494	(100)	(135)	328	358
Other loans	540	635	79	202	618	837
Investments in associates and joint ventures	18	12	1	(45)	18	(33)
Derivative financial instruments[1]	–	–	(307)	880	(307)	880
Investment result, gross, for Group investments	6,963	7,437	2,201	2,182	9,163	9,619
Investment expenses for Group investments	(252)	(252)	–	–	(252)	(252)
Investment result, net, for Group investments	**6,711**	**7,185**	**2,201**	**2,182**	**8,911**	**9,367**

[1] Net capital losses on derivative financial instruments attributable to cash flow hedge ineffectiveness amounted to USD 7 million and USD 13 million for the years ended December 31, 2012 and 2011, respectively.

Impairment charges on Group investments included in net capital gains/losses on investments and impairments amounted to USD 208 million and USD 458 million, including impairment charges on mortgage loans and other loans of USD 114 million and USD 133 million, for the years ended December 31, 2012 and 2011, respectively.

Investment result for unit-linked contracts

Table 6.1c

in USD millions, for the years ended December 31	Net investment income		Net capital gains/(losses) on investments		Investment result	
	2012	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents	16	3	(4)	9	12	12
Equity securities	1,466	1,490	8,412	(5,505)	9,878	(4,015)
Debt securities	299	309	584	236	884	545
Real estate held for investment	310	328	(342)	(79)	(32)	249
Other loans	253	237	(62)	–	191	237
Derivative financial instruments	–	–	(157)	38	(157)	38
Investment result, gross, for unit-linked contracts	2,344	2,367	8,431	(5,302)	10,775	(2,934)
Investment expenses for unit-linked contracts	(508)	(610)	–	–	(508)	(610)
Investment result, net, for unit-linked contracts	**1,836**	**1,757**	**8,431**	**(5,302)**	**10,268**	**(3,544)**

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

Table 6.2

in USD millions, for the years ended December 31	Equity securities		Debt securities		Total	
	2012	2011	**2012**	2011	**2012**	2011
Securities at fair value through profit or loss:	8,654	(5,472)	924	777	9,578	(4,695)
Net capital gains/(losses) on Group investments	242	33	339	541	581	574
of which:						
Trading securities	*10*	12	*5*	5	*15*	17
Securities designated at fair value through profit or loss	*232*	20	*334*	537	*567*	557
Net capital gains/(losses) for unit-linked contracts	8,412	(5,505)	584	236	8,996	(5,269)
Available-for-sale securities:	307	279	1,628	382	1,935	660
Realized capital gains on Group investments	552	705	2,120	1,278	2,672	1,983
Realized capital losses on Group investments	(163)	(156)	(480)	(841)	(643)	(997)
Impairments on Group investments	(82)	(270)	(12)	(55)	(95)	(325)
Total net capital gains/(losses) and impairments	**8,961**	**(5,193)**	**2,552**	**1,158**	**11,512**	**(4,035)**

Table 6.3a

Details of total investments by category

as of December 31	Total investments			
	2012		2011	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	10,359	3.1	10,162	3.3
Equity securities:				
Fair value through profit or loss	103,689	31.1	93,978	30.1
of which:				
Trading securities	*410*	*0.1*	*438*	*0.1*
Securities designated at fair value through profit or loss	*103,279*	*30.9*	*93,540*	*30.0*
Available-for-sale	8,796	2.6	8,207	2.6
Total equity securities	112,485	33.7	102,185	32.8
Debt securities:				
Fair value through profit or loss	21,047	6.3	20,605	6.6
of which:				
Trading securities	*48*	*0.0*	*42*	*0.0*
Securities designated at fair value through profit or loss	*20,999*	*6.3*	*20,563*	*6.6*
Available-for-sale	141,597	42.4	130,196	41.7
Held-to-maturity	5,012	1.5	5,535	1.8
Total debt securities	167,656	50.2	156,335	50.1
Real estate held for investment	12,041	3.6	12,370	4.0
Mortgage loans	10,519	3.1	11,058	3.5
Other loans	20,702	6.2	19,683	6.3
Investments in associates and joint ventures	172	0.1	161	0.1
Total investments	**333,934**	**100.0**	**311,953**	**100.0**

Table 6.3b

Details of Group investments by category

as of December 31	Group investments			
	2012		2011	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	9,098	4.4	8,882	4.5
Equity securities:				
Fair value through profit or loss	3,545	1.7	4,443	2.2
of which:				
Trading securities	*410*	*0.2*	*438*	*0.2*
Securities designated at fair value through profit or loss	*3,135*	*1.5*	*4,006*	*2.0*
Available-for-sale	8,796	4.2	8,207	4.2
Total equity securities	12,341	5.9	12,650	6.4
Debt securities:				
Fair value through profit or loss	8,985	4.3	8,780	4.4
of which:				
Trading securities	*48*	*0.0*	*42*	*0.0*
Securities designated at fair value through profit or loss	*8,937*	*4.3*	*8,738*	*4.4*
Available-for-sale	141,597	67.8	130,196	65.9
Held-to-maturity	5,012	2.4	5,535	2.8
Total debt securities	155,594	74.6	144,511	73.1
Real estate held for investment	8,561	4.1	8,472	4.3
Mortgage loans	10,519	5.0	11,058	5.6
Other loans	12,423	6.0	11,944	6.0
Investments in associates and joint ventures	172	0.1	161	0.1
Total Group investments	**208,707**	**100.0**	**197,677**	**100.0**

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Cash and investments with a carrying value of USD 6,340 million and USD 6,227 million were deposited on behalf of regulatory authorities as of December 31, 2012 and 2011, respectively.

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

As of December 31, 2012 and 2011, respectively, investments included USD 7,751 million and USD 6,298 million of loaned securities. These loaned securities were mainly debt securities. Liabilities for cash collateral received for securities lending comprised USD 330 million and USD 159 million as of December 31, 2012 and 2011, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 8,085 million and USD 6,474 million as of December 31, 2012 and 2011, respectively. The Group can sell or repledge the collateral only in the event of a default by a counterparty.

As of December 31, 2012 and 2011, respectively, debt securities with a carrying value of USD 1,550 million and USD 1,807 million have been sold to financial institutions under short-term sale and repurchase agreements. These securities continue to be recognized as investments in the Group's consolidated balance sheets. Obligations to repurchase these securities amounted to USD 1,539 million and USD 1,794 million as of December 31, 2012 and 2011, respectively.

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

Table 6.3c

Details of investments held for unit-linked contracts

as of December 31	Investments for unit-linked contracts			
	2012		2011	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	1,261	1.0	1,280	1.1
Equity securities	100,144	80.0	89,535	78.3
Debt securities	12,062	9.6	11,825	10.3
Real estate	3,481	2.8	3,898	3.4
Other loans	8,279	6.6	7,739	6.8
Total investments for unit-linked contracts	**125,226**	**100.0**	**114,276**	**100.0**

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

Accrued interest on unit-linked investments included in accrued investment income amounted to USD 210 million and USD 303 million as of December 31, 2012 and December 31, 2011, respectively.

Table 6.4

Debt securities maturity schedule (total investments)

in USD millions, as of December 31	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2012	2011	2012	2011	2012	2011
Debt securities:						
< 1 year	493	680	10,072	11,224	4,004	4,486
1 to 5 years	2,188	2,225	46,027	41,316	5,441	5,050
5 to 10 years	527	613	33,784	30,306	3,867	3,803
> 10 years	1,805	2,017	32,233	26,939	6,747	6,195
Subtotal	5,012	5,535	122,115	109,786	20,058	19,533
Mortgage and asset-backed securities:						
< 1 year	–	–	540	866	26	41
1 to 5 years	–	–	5,358	6,417	406	365
5 to 10 years	–	–	2,175	3,361	114	252
> 10 years	–	–	11,407	9,765	443	414
Subtotal	–	–	19,481	20,410	988	1,072
Total	**5,012**	**5,535**	**141,597**	**130,196**	**21,047**	**20,605**

The analysis in table 6.4 is provided by contractual maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Available-for-sale securities

Table 6.5

in USD millions, as of December 31	Cost or amortized cost[1]		Gross unrealized gains		Gross unrealized losses		Fair value	
	2012	2011	2012	2011	2012	2011	2012	2011
Equity securities								
Common stock	4,515	3,979	1,841	1,490	(331)	(417)	6,025	5,051
Unit trusts	2,434	2,997	398	309	(247)	(309)	2,584	2,997
Non-redeemable preferred stock	167	159	21	8	(3)	(8)	186	158
Total equity securities	**7,117**	**7,134**	**2,259**	**1,806**	**(581)**	**(733)**	**8,796**	**8,207**
Debt securities								
Swiss federal and cantonal governments	3,925	3,104	466	511	(3)	–	4,388	3,615
United Kingdom government	7,566	7,257	496	736	(8)	(3)	8,054	7,989
United States government	10,560	8,498	340	549	(55)	(42)	10,845	9,005
Other governments and supra-nationals	36,226	34,744	2,795	1,553	(350)	(1,302)	38,672	34,995
Corporate securities	55,792	52,902	5,738	3,720	(1,386)	(2,460)	60,145	54,162
Mortgage and asset-backed securities	18,838	19,713	730	939	(87)	(242)	19,481	20,410
Redeemable preferred stocks	10	37	2	1	–	(19)	12	19
Total debt securities	**132,917**	**126,255**	**10,568**	**8,008**	**(1,888)**	**(4,068)**	**141,597**	**130,196**

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

Consolidated financial statements *continued*

Fair value through profit or loss securities

Table 6.6

as of December 31	Group investments				Investments for unit-linked products		Total investments	
	2012		2011		2012	2011	2012	2011
	USD millions	% of total	USD millions	% of total	USD millions	USD millions	USD millions	USD millions
Equity securities:								
Common stock	2,204	17.6	2,539	19.2	39,800	38,176	42,003	40,715
of which: common stock portfolios backing participating with profit policyholder contracts	*534*	*4.3*	*498*	*3.8*	–	–	*534*	*498*
Unit trusts	1,341	10.7	1,901	14.4	60,297	51,248	61,638	53,149
Non-redeemable preferred stock	–	0.0	3	0.0	47	111	47	114
Total equity securities	**3,545**	**28.3**	**4,443**	**33.6**	**100,144**	**89,535**	**103,689**	**93,978**
Debt securities:								
Debt securities	8,221	65.6	7,923	59.9	11,837	11,610	20,058	19,533
Mortgage and asset-backed securities	763	6.1	857	6.5	225	214	988	1,072
Total debt securities	**8,985**	**71.7**	**8,780**	**66.4**	**12,062**	**11,825**	**21,047**	**20,605**
Total	**12,530**	**100.0**	**13,224**	**100.0**	**112,206**	**101,359**	**124,736**	**114,583**

Held-to-maturity debt securities

Table 6.7

as of December 31	2012		2011	
	USD millions	% of total	USD millions	% of total
Swiss federal and cantonal governments	1,847	36.9	1,804	32.6
United States government	1,627	32.5	1,839	33.2
Other governments and supra-nationals	1,168	23.3	1,148	20.7
Corporate securities	370	7.4	743	13.4
Total held-to-maturity debt securities	**5,012**	**100.0**	**5,535**	**100.0**

Real estate held for investment (total investments)

Table 6.8

in USD millions	Total	
	2012	2011
As of January 1	12,370	12,355
Additions and improvements	316	267
Acquisitions	–	120
Disposals	(702)	(396)
Market value revaluation	(206)	40
Transfer from assets held for own use	–	116
Transfer to assets held for sale	(89)	–
Foreign currency translation effects	353	(133)
As of December 31	**12,041**	**12,370**

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

Investments in associates and joint ventures

Table 6.9

in USD millions, as of December 31	Carrying value		Share in profit		Ownership interest	
	2012	2011	**2012**	2011	**2012**	2011
Associates:						
Seven Investment Management Limited	21	19	1	2	49.00%	49.00%
Other	18	16	4	2	–	–
Joint ventures:						
MCIS Zurich Insurance Berhad	43	41	5	4	40.00%	40.00%
Other	3	3	1	1	–	–
SPEs:[1]						
Euclid Office, L.P.	32	29	2	2	99.00%	99.00%
Dallas Tower, L.P.	14	13	1	1	99.00%	99.00%
Other	42	39	4	–	–	–
Total	**172**	**161**	**18**	**12**	**–**	**–**

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

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

Table 6.10

in USD millions, as of December 31	Total	
	2012	2011
Equity securities: available-for-sale	1,679	1,072
Debt securities: available-for-sale	8,679	3,941
Other	300	295
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(3,918)	(1,349)
Present value of future profits	(523)	(199)
Life deferred acquisition costs and present value of future profits	(48)	103
Deferred income taxes	(1,385)	(834)
Non-controlling interests	(23)	3
Total[1]	**4,762**	**3,032**

[1] Net unrealized gains/(losses) include net gains arising on cash flow hedges of USD 238 million and USD 232 million as of December 31, 2012 and 2011, respectively. In 2012 and 2011 the Group applied the cash flow hedge methodology to hedge foreign currency risk exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge interest rate exposure with changes in the fair value being recorded through the income statement.

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7. Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments mainly for economic hedging purposes in order to mitigate risks. Such risks result from changes in interest rates, equity prices and exchange rates.

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2012 and 2011, respectively. Whilst these notional amounts express the extent of the Group's involvement in derivative transactions, they are not, however, representative of amounts at risk. Fair values for derivative financial instruments are included in the consolidated balance sheets in receivables and other assets, and other liabilities.

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

Table 7.1

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

in USD millions, as of December 31	Maturity by notional amount			2012			2011		
	< 1 year	1 to 5 years	> 5 years	Notional amounts	Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
Interest rate contracts:									
OTC									
Swaps	267	1,416	3,610	5,292	349	(45)	4,274	307	(14)
Swaptions	363	4,682	4,364	9,408	242	(104)	8,012	560	(43)
Exchange traded									
Futures	8	–	–	8	–	–	997	–	–
Total interest rate contracts	**638**	**6,097**	**7,974**	**14,709**	**591**	**(148)**	**13,284**	**867**	**(58)**
Equity contracts:									
OTC									
Swaps	42	–	–	42	–	(2)	36	–	(1)
Puts	7,093	940	1,821	9,854	220	(119)	4,019	253	(264)
Calls	1,670	1,545	–	3,214	62	(81)	2,115	41	(75)
Exchange traded									
Puts	49	–	–	49	1	–	44	4	–
Calls	–	–	–	–	–	–	22	–	(1)
Futures	503	–	–	503	1	(3)	511	–	(8)
Total equity contracts	**9,358**	**2,485**	**1,821**	**13,663**	**284**	**(206)**	**6,747**	**298**	**(347)**
Foreign exchange contracts:									
OTC									
Cross currency swaps	444	–	–	444	–	(45)	423	–	(28)
Options	–	–	–	–	–	–	789	–	(11)
Forwards	13,681	–	–	13,681	45	(84)	14,205	124	(110)
Total foreign exchange contracts	**14,124**	**–**	**–**	**14,124**	**45**	**(129)**	**15,418**	**124**	**(149)**
Credit contracts:									
OTC									
Credit default swaps	–	–	–	–	–	–	160	–	(1)
Total credit contracts	**–**	**–**	**–**	**–**	**–**	**–**	**160**	**–**	**(1)**
Other contracts:									
OTC									
Puts	–	–	93	93	–	–	523	–	(52)
Swaps	–	–	66	66	–	(11)	69	–	(9)
Total other contracts	**–**	**–**	**159**	**159**	**–**	**(11)**	**591**	**–**	**(61)**
Total Group derivative financial instruments	24,120	8,582	9,955	42,656	920	(494)	36,200	1,290	(616)
Total unit-linked derivative financial instruments	1,180	879	54	2,113	62	(5)	1,886	65	(37)
Total	**25,300**	**9,461**	**10,008**	**44,769**	**982**	**(500)**	**38,085**	**1,356**	**(653)**

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Interest rate contracts

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

In terms of notional amounts, the major changes compared with December 31, 2011 were an increase of interest rate swaps related to a closed book of variable annuities products within the U.S. life business and an increase of swaptions, mainly long receiver, in order to protect the German and the Irish life insurance books against falling interest rates.

Equity contracts

Equity contracts are entered into, either on a portfolio and/or a macro level to protect equity investments against a decline in equity market prices or to manage the risk return profile of equity exposures. Most equity contracts are purchased put options.

The increase in the notional amount of put options between December 31, 2012 and December 31, 2011 was mainly driven by two new hedges to reduce the equity risk and to protect the Group against the tail risk related to the euro debt crisis. Total return swaps and exchange traded options relating to the dynamic hedging strategy that has been put in place to reduce the volatility associated with a closed book of variable annuities products within its U.S. life business.

Almost all positions are for hedging purposes. With respect to the short positions, call options are used in collar structures to mitigate the hedging costs for some life portfolios and the written put positions are part of the dynamic hedge or are fully backed by long put positions and relate only to legacy positions.

Foreign exchange contracts

Foreign exchange contracts are cross currency swaps and forward contracts which are used to hedge the Group's foreign currency exposures and to manage balance sheet mismatches. As of December 31, 2012 there was no open forward option position.

The decrease in notional amounts of foreign exchange forwards between December 31, 2011 and December 31, 2012, was mostly volume driven.

Credit contracts

As of December 31, 2012, there were no open positions for this product class, mainly as a result of matured positions.

Other contracts

Other contracts predominantly include stable value products (SVPs), which are designed to amortize on a quarterly basis investment gains and losses of the investment portfolios underlying certain life insurance policies, which are owned by banks (Bank Owned Life Insurance or BOLI) and other companies (Company Owned Life Insurance or COLI). Premiums received from policyholders under these policies are invested in separate account portfolios. Throughout the life of the policies, policyholders are entitled, in addition to mortality cover, to the tax-exempt investment returns of such separate account portfolios. The policies are long duration contracts providing charges and benefits over a policy life that can be greater than 45 years. When SVPs form part of these investment portfolios, they reduce the volatility of the policyholders' investment returns. In the event that a policy is surrendered which has a positive SVP value, the policyholder would be entitled to recover such SVP value as well as the market value of the underlying investments. Certain policy features as well as the applicable tax regulations provide disincentives for surrender. The Group monitors the risk of surrender on an ongoing basis and considers the likelihood of surrender as an input factor to the model to determine the fair value of the SVPs. During 2012, there were no surrenders compared with two policy surrenders in 2011. The fair value of the derivative liability recognized in respect of the SVPs, was nil and USD 52 million as of December 31, 2012 and 2011, respectively. The notional SVP derived value was USD 93 million and USD 523 million as of December 31, 2012 and 2011, respectively, representing the total loss before surrender charges in the unlikely event that all policies would have been surrendered on those dates.

Table 7.2 sets out details of fair value, cash flow and net investment hedges:

Table 7.2

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

in USD millions, as of December 31						2012			2011
	Maturity by notional amount			Notional principal amounts	Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Fair value hedges:									
Cross currency interest rate swaps	672	858	–	1,530	252	–	1,518	269	–
Currency swaps	–	8	61	69	–	(40)	69	–	(38)
Interest rate swaps	–	–	1,097	1,097	37	–	–	–	–
Total fair value hedges	**672**	**865**	**1,158**	**2,695**	**288**	**(40)**	**1,588**	**269**	**(38)**
Cash flow hedges:									
Options on interest rate swaps	–	923	2,284	3,207	438	–	3,130	414	–
Currency swaps	–	1,768	–	1,768	90	–	1,768	75	(9)
Interest rate swaps	33	88	39	159	14	–	203	11	–
Total cash flow hedges	**33**	**2,779**	**2,323**	**5,135**	**542**	**–**	**5,102**	**501**	**(9)**
Net investment hedges:									
Forwards	273	–	–	273	–	(2)	–	–	–
Total net investment hedges	273	–	–	273	**–**	**(2)**	**–**	**–**	**–**

Fair value hedges

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

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

A fair value hedge relationship on 20 percent of the EUR 1.0 billion 4.5 percent senior note due for repayment in 2014 issued by Zurich Finance (USA), Inc. (see note 21), was entered into on January 1, 2007 and will end on the maturity of the underlying debt instrument in 2014.

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

A fair value hedge relationship on the CHF 400 million 1.5 percent senior note due for repayment in June 2019 issued by Zurich Insurance Company Ltd (see note 21), was entered into on June 25, 2012 and will end on the maturity of the underlying debt instrument in 2019.

A fair value hedge relationship on the EUR 500 million 3.375 percent senior note due for repayment in June 2022 issued by Zurich Insurance Company Ltd (see note 21), was entered into on June 27, 2012 and will end on the maturity of the underlying debt instrument in 2022.

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

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

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Table 7.3 sets out gains and losses arising from fair value hedges:

Gains/(losses) arising from fair value hedges

Table 7.3

in USD millions, as of December 31	2012	2011
Gains/(losses)		
on hedging instruments[1]	*20*	*(6)*
on hedged items attributable to the hedged risk	*(30)*	*–*

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

Cash flow hedges

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

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

As of December 31, 2012 the following cash flow hedge relationships were in place (see note 21):

- 80 percent of the EUR 1.0 billion 4.5 percent senior note due 2014 issued by Zurich Finance (USA), Inc. entered on January 1, 2007 ending September 17, 2014.

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

The net gains deferred in other comprehensive income on derivative financial instruments designated as cash flow hedges were USD 4 million and USD 245 million before tax for the years ended December 31, 2012 and 2011, respectively.

The portion recognized in income was a gain of USD 35 million and a loss of USD 53 million before tax for the years ended December 31, 2012 and 2011, respectively, as an offset to the foreign currency revaluation on the underlying hedged debt.

A loss of USD 7 million and USD 13 million for the years ended December 31, 2012 and 2011, respectively, was recognized in net capital gains/(losses) and impairments due to hedge ineffectiveness.

Net investment hedges

In December 2012, the Group started to apply net investment hedge accounting in order to hedge against the effects of changes in exchange rates in its net investments in foreign operations. A net hedge relationship through a foreign exchange forward with a notional amount of GBP 168 million was in place for the year ended December 31, 2012.

Net losses deferred in shareholders' equity on net investment hedges were USD 2 million before tax for the year ended December 31, 2012.

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

Reserves for insurance contracts

Table 8.1

in USD millions, as of December 31	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
Reserves for losses and loss adjustment expenses	69,986	67,762	(12,601)	(12,421)	57,385	55,341
Reserves for unearned premiums	17,300	17,661	(2,666)	(2,532)	14,634	15,129
Future life policyholders' benefits	83,807	80,584	(2,507)	(2,583)	81,300	78,001
Policyholders' contract deposits and other funds	20,024	18,356	(2,106)	(2,181)	17,917	16,175
Reserves for unit-linked contracts	74,117	68,844	–	–	74,117	68,844
Total reserves for insurance contracts[1]	**265,233**	**253,207**	**(19,880)**	**(19,717)**	**245,353**	**233,490**

[1] The total reserves for insurance contracts ceded are gross of allowance for uncollected amounts of USD 127 million and USD 125 million as of December 31, 2012 and December 31, 2011, respectively.

Development of reserves for losses and loss adjustment expenses

Table 8.2

in USD millions	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
As of January 1	67,762	68,274	(12,421)	(12,093)	55,341	56,180
Losses and loss adjustment expenses incurred:						
Current year	27,612	28,522	(3,273)	(4,755)	24,340	23,767
Prior years	(676)	(1,650)	105	347	(571)	(1,302)
Total incurred	26,936	26,873	(3,168)	(4,408)	23,769	22,465
Losses and loss adjustment expenses paid:						
Current year	(10,548)	(10,777)	694	959	(9,853)	(9,817)
Prior years	(16,230)	(16,133)	2,706	3,041	(13,525)	(13,092)
Total paid	(26,778)	(26,910)	3,400	4,000	(23,378)	(22,909)
Acquisitions/(divestments) and transfers[1]	1,217	207	(257)	(26)	960	181
Foreign currency translation effects	849	(682)	(156)	106	693	(576)
As of December 31	**69,986**	**67,762**	**(12,601)**	**(12,421)**	**57,385**	**55,341**

[1] The 2012 net movement includes a transfer of USD 1,224 million from policyholders' contract deposits and other funds, partially offset by USD (235) million relating to a reinsurance agreement which transfers the benefits and risks of some of the Group's general insurance portfolio to RiverStone Insurance (UK) Limited, and by USD (33) million transferred to future life policyholders' benefits (see note 1). The 2011 net movement relates mainly to acquisitions/divestments (see note 5).

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

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

Table 8.2 shows the development of reserves for losses and loss adjustment expenses during the years 2012 and 2011.

The increase of USD 2,044 million during the year ended December 31, 2012 in net reserves for losses and loss adjustment expenses is mostly driven by the reclassification of USD 1,224 million transferred from policyholders' contract deposits and other funds to reserves for losses and loss adjustment expenses (see note 1), and the foreign currency impact of USD 693 million. Additionally, USD 571 million of favorable reserve development emerged from reserves established in prior years. Gross of reinsurance, the favorable development was USD 676 million. This favorable development was primarily attributable to the General Insurance business segment and mainly relates to the following movements by market-facing business, country and line of business:

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- In Global Corporate, favorable development of USD 199 million was driven by Europe essentially originating from Switzerland, the UK and Ireland. The development occurred mostly in the property and engineering lines of business;

- In North America Commercial, favorable development of USD 203 million arose mostly from medical malpractice, general liability, errors and omissions and the Canadian operations;

- The personal and commercial business in Europe reported favorable prior year development of USD 90 million. The favorable development was driven by USD 435 million in Switzerland, mostly in motor, and USD 96 million in the UK and Ireland, coming from many lines of business. Partially offsetting this, Germany reported an adverse development of USD 476 million arising mainly from the medical and professional liability lines of business.

The Non-Core Businesses segment additionally added to the adverse development.

The decrease of USD 839 million during the year ended December 31, 2011 in net reserves for losses and loss adjustment expenses included USD 1,302 million of favorable reserve development emerging from reserves established in prior years. Gross of reinsurance, the favorable development was USD 1,650 million. This favorable development was primarily attributable to the General Insurance business and mainly related to the following movements by market-facing business, country and line of business:

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

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

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

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

Development of insurance losses, net

Table 8.3

in USD millions, as of December 31	2003	2004	2005	2006	2007	2008	2009	2010	2011	**2012**
Gross reserves for losses and loss adjustment expenses	51,068	57,765	60,425	64,535	67,890	65,218	68,126	68,274	67,762	69,986
Reinsurance recoverable	(14,055)	(14,279)	(14,231)	(13,722)	(13,179)	(12,232)	(12,182)	(12,093)	(12,421)	(12,601)
Initial net reserves for losses and loss adjustment expenses	37,013	43,486	46,194	50,814	54,712	52,986	55,944	56,180	55,341	57,385
Cumulative paid as of December 31:										
One year later	*(9,930)*	*(9,464)*	*(11,423)*	*(11,237)*	*(12,551)*	*(13,047)*	*(12,716)*	*(13,092)*	*(13,525)*	
Two years later	*(15,550)*	*(16,273)*	*(18,044)*	*(18,362)*	*(19,660)*	*(19,909)*	*(19,821)*	*(21,073)*		
Three years later	*(20,407)*	*(21,234)*	*(23,077)*	*(23,421)*	*(24,428)*	*(24,693)*	*(25,623)*			
Four years later	*(23,941)*	*(24,945)*	*(26,850)*	*(26,839)*	*(27,735)*	*(28,808)*				
Five years later	*(26,616)*	*(27,798)*	*(29,425)*	*(29,224)*	*(30,690)*					
Six years later	*(28,668)*	*(29,810)*	*(31,189)*	*(31,483)*						
Seven years later	*(30,245)*	*(31,148)*	*(33,030)*							
Eight years later	*(31,274)*	*(32,655)*								
Nine years later	*(32,423)*									
Cumulative incurred as of December 31:										
One year later	*1,964*	*141*	*(218)*	*(1,219)*	*(1,271)*	*(1,059)*	*(1,378)*	*(1,302)*	*(571)*	
Two years later	*3,400*	*1,520*	*(367)*	*(2,171)*	*(2,152)*	*(2,350)*	*(2,565)*	*(1,819)*		
Three years later	*4,991*	*1,839*	*(897)*	*(2,686)*	*(2,844)*	*(3,048)*	*(2,700)*			
Four years later	*5,241*	*1,808*	*(945)*	*(3,003)*	*(3,533)*	*(3,176)*				
Five years later	*5,457*	*2,118*	*(1,044)*	*(3,438)*	*(3,580)*					
Six years later	*6,004*	*2,194*	*(1,184)*	*(3,279)*						
Seven years later	*6,094*	*2,254*	*(841)*							
Eight years later	*6,223*	*2,686*								
Nine years later	*6,662*									
Net reserves re-estimated as of December 31:										
One year later	*38,977*	*43,627*	*45,976*	*49,594*	*53,441*	*51,927*	*54,565*	*54,878*	*54,770*	
Two years later	*40,413*	*45,006*	*45,827*	*48,642*	*52,559*	*50,637*	*53,379*	*54,361*		
Three years later	*42,004*	*45,325*	*45,297*	*48,127*	*51,868*	*49,939*	*53,243*			
Four years later	*42,254*	*45,294*	*45,249*	*47,811*	*51,179*	*49,810*				
Five years later	*42,470*	*45,604*	*45,150*	*47,376*	*51,131*					
Six years later	*43,017*	*45,680*	*45,010*	*47,535*						
Seven years later	*43,107*	*45,740*	*45,353*							
Eight years later	*43,236*	*46,172*								
Nine years later	*43,675*									
Cumulative (deficiency)/ redundancy of net reserves	(6,662)	(2,686)	841	3,279	3,580	3,176	2,700	1,819	571	
Cumulative (deficiency)/ redundancy as a percentage of initial net reserves	(18.0%)	(6.2%)	1.8%	6.5%	6.5%	6.0%	4.8%	3.2%	1.0%	
Gross reserves re-estimated as of December 31, 2012	60,188	61,592	60,182	60,669	63,258	60,993	64,138	65,876	67,086	
Cumulative (deficiency)/ redundancy of gross reserves	(9,120)	(3,827)	243	3,866	4,633	4,225	3,988	2,398	676	
Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves	(17.9%)	(6.6%)	0.4%	6.0%	6.8%	6.5%	5.9%	3.5%	1.0%	

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Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Group established in 2003 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. Similarly, the cumulative incurred losses section details the sum of the cumulative paid amounts shown in the triangle above and the changes in loss reserves since the end of each financial year. The net reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2012. It is the difference between the initial net reserve estimate and the last entry of the diagonal. Conditions and trends that have affected the development of reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.3.

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

Table 8.4

in USD millions		2012		2011
	Gross	**Net**	Gross	Net
Asbestos				
As of January 1	3,283	2,867	3,408	2,863
Losses and loss adjustment expenses incurred	51	37	42	80
Losses and loss adjustment expenses paid	(134)	(110)	(159)	(68)
Acquisitions/(divestments) and transfers[1]	–	(127)	–	–
Foreign currency translation effects	132	112	(8)	(8)
As of December 31	**3,332**	**2,779**	**3,283**	**2,867**
Environmental				
As of January 1	286	198	290	223
Losses and loss adjustment expenses incurred	67	79	36	–
Losses and loss adjustment expenses paid	(67)	(55)	(41)	(25)
Acquisitions/(divestments) and transfers[1]	–	(21)	–	–
Foreign currency translation effects	1	–	1	–
As of December 31	**288**	**202**	**286**	**198**

1 The 2012 net movement relates to a reinsurance agreement which transfers the benefits and risks of some of the Group's general insurance portfolio to RiverStone Insurance (UK) Limited, prior to a portfolio sale until regulatory clearance is obtained.

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

Reserves for asbestos claims increased by USD 49 million gross but decreased USD 89 million net during 2012. During 2011, the gross reserve decreased by USD 125 million but increased USD 4 million on a net basis. As a significant portion of the Group's reserves are held in British pounds, there was an increase in gross and net reserves reported for 2012 due to the strengthening of the currency compared with the U.S. dollar. Without this effect, the total gross reserve would also have decreased. In addition, in 2012, following an in-depth review of asbestos, pollution and health (APH) book of business in the U.S., gross and net reserves were strengthened. Despite these increases, the total net reserves have decreased due to a reinsurance agreement which transfers the benefits and risks of some of the Group's APH portfolio to RiverStone Insurance (UK) Limited, prior to a portfolio sale until regulatory clearance is obtained.

For 2011, there was a decrease in gross and net reserves driven by the re-estimation of the ultimate liability for asbestos as well as the normal payout of claims. In addition, the decrease in gross reserves was partially offset by the increase in UK reserves, which contributed also to the overall increase in net reserves. This increase in UK gross and net reserves followed a court ruling in Scotland and Northern Ireland related to the impact of pleural plaques losses.

Reserves for environmental claims increased by USD 2 million gross and USD 4 million net, but decreased by USD 4 million gross and by USD 25 million net during the years ended December 31, 2012 and 2011, respectively.

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

Development of future life policyholders' benefits

Table 8.5

in USD millions	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
As of January 1	80,584	79,315	(2,583)	(2,423)	78,001	76,891
Premiums	8,867	8,736	(541)	(511)	8,326	8,225
Claims	(9,168)	(10,463)	414	426	(8,754)	(10,036)
Fee income and other expenses	(1,789)	(2,072)	182	87	(1,608)	(1,985)
Interest and bonuses credited to policyholders	2,649	3,257	(75)	(161)	2,575	3,096
Change in assumptions	(147)	423	155	(23)	8	400
Acquisitions/transfers[1]	1,065	2,815	(14)	(7)	1,051	2,808
(Decreases)/increases recorded in other comprehensive income	167	252	–	–	167	252
Foreign currency translation effects	1,579	(1,679)	(45)	29	1,534	(1,650)
As of December 31	**83,807**	**80,584**	**(2,507)**	**(2,583)**	**81,300**	**78,001**

[1] The 2012 net movement includes USD 937 million transferred from reserves for unearned premiums, USD 66 million transferred from policyholders' contract deposits and other funds, USD 33 million transferred from loss reserves (see note 1) and USD 15 million from the acquisition of ZIMB (see note 5). The 2011 net movement includes reserves acquired with Zurich Santander of USD 1,258 million, as well as USD 1,353 million acquired with ZIMB (see note 5). Additionally it includes reclassifications of USD 212 million transferred from other liabilities, partly offset by USD (27) million transferred to liabilities for investment contracts (see note 1 of the Consolidated financial statements 2011).

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

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

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The net impact of changes in assumptions on net future life policyholders' benefits was USD 8 million and USD 400 million for the years ended December 31, 2012 and 2011, respectively. The net changes are shown in table 8.6.

Effect of changes in assumptions for future life policyholders' benefits

Table 8.6

in USD millions, for the year ended December 31	**2012**	2011
Interest rates	223	451
Legislative Changes	88	–
Morbidity	(1)	(38)
Longevity	(4)	(1)
Lapses	(7)	(29)
Investment return	(51)	(63)
Changes in modelling	(58)	(4)
Expense	(75)	(12)
Other	(108)	96
Net impact of changes in assumptions	**8**	**400**

Policyholders' contract deposits and other funds gross

Table 8.7

in USD millions, as of December 31	**2012**	2011
Annuities[1]	–	1,320
Universal life and other contracts	12,219	11,681
Policyholder dividends	7,804	5,355
Total	**20,024**	**18,356**

[1] Annuities were reclassified to reserves for losses and loss adjustment expenses and future life policyholders' benefits (see note 1).

Development of policyholders' contract deposits and other funds

Table 8.8

in USD millions		Gross		Ceded		Net
	2012	2011	**2012**	2011	**2012**	2011
As of January 1	18,356	17,430	(2,181)	(2,246)	16,175	15,184
Premiums	1,157	1,395	(27)	(60)	1,131	1,335
Claims	(1,269)	(1,421)	211	195	(1,058)	(1,225)
Fee income and other expenses	(230)	(344)	(60)	7	(290)	(337)
Interest and bonuses credited to policyholders	708	628	(81)	(79)	627	549
Change in assumptions	–	91	–	–	–	91
Acquisitions/transfers[1]	(1,308)	373	32	–	(1,276)	373
(Decrease)/increase recorded in other comprehensive income	2,313	477	–	–	2,313	477
Foreign currency translation effects	296	(273)	(1)	2	296	(271)
As of December 31	**20,024**	**18,356**	**(2,106)**	**(2,181)**	**17,917**	**16,175**

[1] The 2012 net movement includes USD (1,224) million transferred to loss reserves and loss adjustment expenses and USD (66) million transferred to future life policyholders' benefits (see note 1). The 2011 net movement includes USD 266 million from the acquisition of ZIMB and USD 107 million from Zurich Santander (see note 5).

Development of reserves for unit-linked contracts

Table 8.9

in USD millions	2012	2011
As of January 1	68,844	61,786
Premiums	11,064	9,263
Claims	(11,434)	(8,384)
Fee income and other expenses	(1,586)	(1,689)
Interest and bonuses credited/(charged) to policyholders	6,270	(1,274)
Acquisitions/transfers[1]	154	9,714
Foreign currency translation effects	804	(571)
As of December 31	**74,117**	**68,844**

[1] The 2012 movement includes USD 151 million transferred from liabilities for investment contract liabilities (see note 1). The 2011 net movement includes USD 9,634 million from Zurich Santander and USD 221 million acquired with ZIMB (see note 5). Additionally it includes a reclassification of USD (140) million to liabilities for investment contracts (see note 1 of the Consolidated financial statements 2011).

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9. Liabilities for investment contracts

Liabilities for investment contracts

Table 9.1

in USD millions, as of December 31	2012	2011
Liabilities related to unit-linked investment contracts	50,923	44,220
Liabilities related to investment contracts (amortized cost)	1,305	1,131
Liabilities related to investment contracts with DPF	5,903	5,607
Total	**58,131**	**50,958**

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

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

Development of liabilities for investment contracts

Table 9.2

in USD millions	2012	2011
As of January 1	50,958	50,667
Premiums	7,307	7,934
Claims	(6,353)	(5,762)
Fee income and other expenses	(609)	(573)
Interest and bonuses charged/(credited) to policyholders	4,983	(1,431)
Acquisitions/transfers[1]	(150)	852
Increase/(decrease) recorded in other comprehensive income	4	(6)
Foreign currency translation effects	1,991	(723)
As of December 31	**58,131**	**50,958**

[1] The 2012 movement includes USD (151) million transferred to reserves for unit-linked contracts (see note 1). The 2011 movement includes USD 309 million from Zurich Santander (see note 5), USD 140 million transferred from reserves for unit-linked contracts, USD 246 million transferred from other liabilities, USD 135 million transferred from non-technical provisions and USD 27 million transferred from future life policyholders' benefits (see note 1 of the Consolidated financial statements 2011).

10. Equity component relating to contracts with DPF

Certain investment and insurance contracts sold by the Group contain benefit features for which the amount and timing of declaration and payment are at the discretion of the Group. Where that discretion has not been exercised, the total amount of undeclared funds surplus is included in other comprehensive income. Mandated allocations related to unrealized results and earnings are included in policyholder liabilities and, upon declaration, discretionary bonuses are allocated to policyholders. The changes in table 10 represent the increase or decrease in unallocated gains and retained earnings after charging discretionary bonuses to policyholder liabilities.

Development of the equity component relating to contracts with DPF

Table 10

in USD millions	2012	2011
As of January 1	1,488	2,168
Net unrealized (losses)/gains on investments	557	(676)
Current period profit	476	5
Foreign currency translation effects	39	(9)
As of December 31	**2,560**	**1,488**

11. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 11.1

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
Losses and loss adjustment expenses	26,936	26,873	(3,168)	(4,408)	23,769	22,465
Life insurance death and other benefits	10,334	11,259	(351)	(644)	9,983	10,615
Total insurance benefits and losses	**37,271**	**38,132**	**(3,519)**	**(5,052)**	**33,752**	**33,080**

Policyholder dividends and participation in profits

Table 11.2

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
Change in policyholders' contract deposits and other funds	1,210	644	(19)	(1)	1,190	643
Change in reserves for unit-linked products	6,153	(1,826)	–	–	6,153	(1,826)
Change in liabilities for investment contracts – unit-linked	4,166	(1,801)	–	–	4,166	(1,801)
Change in liabilities for investment contracts – other	233	224	–	–	233	224
Change in unit-linked liabilities related to UK capital gains tax	(264)	75	–	–	(264)	75
Total policyholder dividends and participation in profits	**11,499**	**(2,684)**	**(19)**	**(1)**	**11,479**	**(2,685)**

Underwriting and policy acquisition costs

Table 11.3

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
Amortization of deferred acquisition costs	6,484	5,365	(536)	(506)	5,948	4,860
Amortization of deferred origination costs	168	135	–	–	168	135
Commissions and other underwriting and acquisition expenses[1]	4,283	3,802	(384)	(280)	3,898	3,522
Total underwriting and policy acquisition costs	**10,934**	**9,302**	**(920)**	**(786)**	**10,014**	**8,516**

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

Change in reserves for unearned premiums

Table 11.4

in USD millions, for the years ended December 31	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
Change in reserves for unearned premiums	**845**	**932**	**(103)**	**(181)**	**741**	**751**

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12. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 12.1

in USD millions	General Insurance		Global Life		Other segments[1]		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
As of January 1	3,482	3,332	13,584	12,686	353	169	17,420	16,187
Acquisition costs deferred	3,355	3,107	2,656	1,909	898	714	6,908	5,730
Amortization	(3,240)	(2,977)	(1,744)	(1,339)	(914)	(530)	(5,898)	(4,846)
Impairments	(39)	(14)	(11)	–	–	–	(50)	(14)
Amortization charged/(credited) to other comprehensive income	–	–	(314)	(21)	–	–	(314)	(21)
Acquisitions/divestments/transfers[2]	(3)	67	(5)	573	–	–	(8)	640
Foreign currency translation effects	(13)	(33)	301	(223)	–	–	288	(256)
As of December 31	**3,543**	**3,482**	**14,466**	**13,584**	**337**	**353**	**18,346**	**17,420**

[1] Net of eliminations from inter-segment transactions.
[2] The 2012 movement includes USD 5 million transferred to deferred origination costs in Global Life (see note 1) and USD 3 million in General Insurance mainly as a consequence of the loss of control over one of the Group's subsidiaries (see note 5). The 2011 movement includes the acquisition of Zurich Santander (see note 5).

Impairments in 2012 include USD 39 million, following a reassessment of the deferred policy acquisition costs in the General Insurance business in Germany.

As of December 31, 2012 and 2011, deferred policy acquisition costs related to non-controlling interests were USD 572 million and USD 499 million, respectively.

Development of deferred origination costs

Table 12.2

in USD millions	**2012**	2011
As of January 1	824	866
Origination costs deferred	79	101
Amortization	(168)	(135)
Transfers[1]	5	–
Foreign currency translation effects	29	(9)
As of December 31	**770**	**824**

[1] The 2012 movement consists of USD 5 million transferred from deferred policy acquisition costs (see note 1).

13. Administrative and other operating expense

Administrative and other operating expense

Table 13

in USD millions, for the years ended December 31	**2012**	2011
Wages and salaries	3,330	3,276
Other employee benefits	706	565
Amortization and impairments of intangible assets	874	805
Depreciation and impairments of property and equipment	210	191
Rent, leasing and maintenance	431	453
Marketing costs	212	209
Life recurring commission	365	386
Asset and other non-income taxes	131	58
IT costs	845	804
Litigation and settlement costs	97	77
Restructuring costs	210	222
Foreign currency translation	(53)	(157)
Other	1,302	1,380
Total	**8,661**	**8,270**

Table 13 reflects the costs by nature after allocation of certain costs, in particular wages and salaries as well as other employee benefits, on a functional basis.

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14. Farmers management fees and other related revenues

Farmers management fees and other related revenues

Table 14

in USD millions, for the years ended December 31	2012	2011
Farmers management fees and other related revenues	**2,846**	**2,767**

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

FGI has historically charged a lower management fee than the amount allowed by contract. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 18,703 million and USD 18,149 million for the years ended December 31, 2012 and 2011, respectively.

15. Mortgage loans given as collateral and collateralized loans

As part of the Deutscher Herold transaction in 2002, the Group acquired various mortgage loans. In 2012 the remaining mortgage loans were redeemed in line with the original contract terms.

Deutscher Herold had previously sold these loans to credit institutions while retaining the related credit and interest risk. Therefore the loans had not been derecognized from the consolidated balance sheets and the transaction was reflected as a collateralized borrowing. Accordingly, the loans were recorded as mortgage loans given as collateral and the liability to credit institutions as collateralized loans.

Table 15 shows the maturity schedule of collateralized loans as of December 31, 2011.

Maturity schedule - collateralized loans

Table 15

in USD millions, as of December 31	2011	
	Carrying value[1]	Undiscounted cash flows[2]
< 1 year	113	113
2 to 3 years	42	42
3 to 4 years	12	12
4 to 5 years	2	2
> 5 years	54	54
Total	**223**	**223**

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

16. Property and equipment

Table 16.1

Property and equipment – current period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2012	325	1,057	575	559	694	3,210
Less: accumulated depreciation/impairments	–	(348)	(423)	(464)	(395)	(1,630)
Net carrying value as of January 1, 2012	325	709	152	95	299	1,580
Additions and improvements	–	15	39	35	137	226
Disposals	(5)	(21)	(7)	(7)	(42)	(82)
Transfers	(7)	(3)	15	–	(15)	(9)
Depreciation and impairments	(7)	(33)	(43)	(44)	(84)	(210)
Foreign currency translation effects	7	15	1	–	3	26
Net carrying value as of December 31, 2012	**313**	**682**	**158**	**79**	**299**	**1,530**
Plus: accumulated depreciation/impairments	7	378	348	442	346	1,520
Gross carrying value as of December 31, 2012	**320**	**1,060**	**506**	**520**	**645**	**3,050**

Table 16.2

Property and equipment – prior period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value January 1, 2011	352	1,201	471	582	828	3,435
Less: accumulated depreciation/impairments	(1)	(424)	(364)	(486)	(471)	(1,745)
Net carrying value January 1, 2011	352	777	107	96	357	1,689
Additions and improvements	–	7	51	48	93	199
Acquisitions[1]	18	63	4	–	1	86
Disposals	(5)	(10)	(1)	(1)	(28)	(44)
Transfers	(37)	(86)	33	(2)	(53)	(144)
Depreciation and impairments	(1)	(33)	(41)	(45)	(71)	(191)
Foreign currency translation effects	(3)	(8)	(2)	(1)	(1)	(15)
Net carrying value as of December 31, 2011	**325**	**709**	**152**	**95**	**299**	**1,580**
Plus: accumulated depreciation/impairments	–	348	423	464	395	1,630
Gross carrying value as of December 31, 2011	**325**	**1,057**	**575**	**559**	**694**	**3,210**

[1] Related to the acquisition of Zurich Santander and ZIMB (see note 5).

The fire insurance value of the Group's own-use property and equipment totaled USD 3,036 million and USD 2,917 million as of December 31, 2012 and 2011, respectively.

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17. Goodwill and other intangible assets

Intangible assets – current period

Table 17.1

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2012	2,186	2,824	4,562	1,025	4,210	190	14,997
Less: accumulated amortization/impairments	(126)	(1,640)	(430)	–	(2,593)	(86)	(4,876)
Net carrying value as of January 1, 2012	2,060	1,184	4,132	1,025	1,616	104	10,121
Additions and transfers	22	–	36	–	482	–	539
Divestments and transfers	(1)	–	(137)	–	(4)	–	(143)
Amortization	–	(205)	(213)	–	(392)	(13)	(822)
Amortization charged to other comprehensive income	–	(149)	–	–	–	–	(149)
Impairments	–	–	–	–	(51)	(1)	(52)
Foreign currency translation effects	27	13	(3)	–	19	3	59
Net carrying value as of December 31, 2012	**2,107**	**844**	**3,815**	**1,025**	**1,670**	**94**	**9,555**
Plus: accumulated amortization/impairments	132	2,047	620	–	2,747	125	5,671
Gross carrying value as of December 31, 2012	**2,239**	**2,890**	**4,435**	**1,025**	**4,418**	**219**	**15,226**

As of December 31, 2012, intangible assets relating to non-controlling interests were USD 201 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,789 million for distribution agreements and USD 11 million for software.

Additions to goodwill of USD 14 million relates to the acquisition of ZIMB in 2011, resulting from an increase in the anticipated purchase price adjustment and finalization of the purchase accounting (see note 5) and an increase of USD 8 million relating to the increase of an earn out liability in Brazil.

New distribution agreements in General Insurance operations in Brazil, to gain access to the mass consumer market, and in Global Life operations in the Middle East, resulted in additions of USD 36 million.

The loss of control over one of the Group's subsidiaries resulted in the derecognition of the related assets and liabilities, including a goodwill asset of USD 1 million and USD 137 million of distribution agreements (see note 5).

Intangible assets by segment – current period

Table 17.2

in USD millions, as of December 31, 2012	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	852	–	713	–	586	76	2,227
Global Life	435	844	3,102	–	403	17	4,801
Farmers	819	–	–	1,025	382	–	2,226
Other Operating Businesses	–	–	–	–	300	–	300
Non-Core Businesses	–	–	–	–	1	–	1
Net carrying value as of December 31, 2012	**2,107**	**844**	**3,815**	**1,025**	**1,670**	**94**	**9,555**

Intangible assets – prior period

Table 17.3

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2011	2,241	2,528	2,607	1,025	3,967	195	12,563
Less: accumulated amortization/impairments	(136)	(1,622)	(326)	–	(2,344)	(76)	(4,505)
Net carrying value as of January 1, 2011	2,104	906	2,281	1,025	1,623	119	8,059
Additions and transfers	51	332	2,082	–	560	1	3,026
Divestments and transfers[1]	(12)	–	–	–	–	–	(12)
Amortization	–	(114)	(127)	–	(432)	(14)	(686)
Amortization charged to other comprehensive income	–	82	–	–	–	–	82
Impairments	–	–	–	–	(119)	–	(119)
Foreign currency translation effects	(84)	(23)	(103)	–	(15)	(2)	(228)
Net carrying value as of December 31, 2011	**2,060**	**1,184**	**4,132**	**1,025**	**1,616**	**104**	**10,121**
Plus: accumulated amortization/impairments	126	1,640	430	–	2,593	86	4,876
Gross carrying value as of December 31, 2011	**2,186**	**2,824**	**4,562**	**1,025**	**4,210**	**190**	**14,997**

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

As of December 31, 2011, intangible assets related to non-controlling interests were USD 277 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,950 million for distribution agreements and USD 5 million for software.

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

A long term strategic arrangement over a 25 year period with Banco Santander S.A. in Latin America significantly expanded the Group's presence in this emerging market and resulted in new distribution agreements totalling USD 2,007 million within both the Global Life and General Insurance operations in Mexico, Brazil, Chile and Argentina. This transaction also resulted in additions to PVFP amounting to USD 309 million in Mexico, Brazil and Chile. In addition, the acquisition of ZIMB resulted in an addition to PVFP amounting to USD 24 million (see note 5).

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

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

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Table 17.4

Intangible assets by segment – prior period

in USD millions, as of December 31, 2011	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	827	–	853	–	548	83	2,311
Global Life	413	1,184	3,279	–	372	21	5,269
Farmers	819	–	–	1,025	409	–	2,254
Other Operating Businesses	–	–	–	–	286	–	286
Non-Core Businesses	–	–	–	–	1	–	1
Net carrying value as of December 31, 2011	**2,060**	**1,184**	**4,132**	**1,025**	**1,616**	**104**	**10,121**

18. Receivables and other assets

Receivables and other assets

Table 18

in USD millions, as of December 31	2012	2011
Financial assets		
Derivative assets	1,813	2,126
Receivables from policyholders	3,514	3,365
Receivables from insurance companies, agents and intermediaries	5,884	5,539
Receivables arising from ceded reinsurance	1,117	1,187
Reverse repurchase agreements	988	814
Amounts due from investment brokers	493	321
Other receivables	1,973	2,032
Allowance for impairments[1]	(327)	(320)
Other assets	135	134
Non-financial assets		
Current tax receivables	1,198	825
Accrued premiums	688	684
Prepaid expenses	275	286
Prepaid insurance benefits	333	432
Other assets	340	404
Total receivables and other assets	**18,423**	**17,828**

[1] Allowance for impairments includes USD 79 million and USD 81 million as of December 31, 2012 and 2011, respectively, for receivables arising from ceded reinsurance.

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

19. Other liabilities

Other liabilities

Table 19.1

in USD millions, as of December 31	2012	2011
Other financial liabilities		
Derivative liabilities	542	700
Amounts due to policyholders	761	645
Amounts due to insurance companies, agents & intermediaries	1,360	1,388
Amounts due to reinsurers	1,398	1,117
Liabilities for cash collateral received for securities lending	330	159
Amounts due to investment brokers	1,334	1,406
Deposits from banking activities	672	815
Liabilities for defined benefit plans	3,417	2,905
Other liabilities for employee benefit plans	108	109
Other liabilities	5,214	6,543
Other non-financial liabilities		
Current tax payables	1,101	947
Restructuring provisions	297	254
Premium prepayments and other advances	916	891
Other liabilities	684	1,259
Total other liabilities	**18,135**	**19,137**

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Table 19.2 shows the maturity schedule of other financial liabilities as of December 31, 2012 and 2011, respectively.

Table 19.2

Maturity schedule – other financial liabilities[1]

in USD millions, as of December 31	2012		2011	
	Carrying value[2]	**Undiscounted cash flows[3]**	Carrying value[2]	Undiscounted cash flows[3]
< 1 year	10,227	10,213	11,136	11,128
1 to 2 years	119	92	376	387
2 to 3 years	140	121	116	118
3 to 4 years	157	155	183	196
4 to 5 years	98	118	114	115
> 5 years	979	1,442	956	1,164
Total	**11,719**	**12,142**	**12,881**	**13,109**

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

Table 19.3

Restructuring provisions

in USD millions	2012	2011
As of January 1	254	155
Provisions made during the period	174	179
Increase of provisions set up in prior years	43	45
Provisions used during the period	(170)	(112)
Provisions reversed during the period	(6)	(2)
Foreign currency translation effects	5	(11)
As of December 31	**297**	**254**

During the year ended December 31, 2012, restructuring programs primarily impacted several European countries within the General Insurance and Global Life operations with estimated costs of USD 174 million for restructuring programs announced in the current year and USD 43 million for increases of provisions for restructuring which had been initiated in prior years. In addition, software impairments amounting to USD 11 million were made as part of the restructuring decisions of Global Life operations.

During the year ended December 31, 2011, the Group initiated several restructuring programs, recording a total charge to income of USD 179 million. A further USD 45 million was recorded in respect of restructuring programs initiated in prior years. The main restructuring program impacted several European countries within the General Insurance operations with estimated costs of USD 112 million. In addition, the Group recorded USD 85 million of software impairments as outlined in note 17.

20. Income taxes

Income tax expense – current/deferred split

Table 20.1

in USD millions, for the years ended December 31	2012	2011
Current	1,033	1,099
Deferred	463	(136)
Total income tax expense	**1,496**	**963**

Income tax expense – policyholder/shareholder attribution

Table 20.2

in USD millions, for the years ended December 31	2012	2011
Total income tax expense/(benefit) attributable to policyholders	194	(242)
Total income tax expense attributable to shareholders	1,301	1,204
Total income tax expense	**1,496**	**963**

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

Expected and actual income tax expense

Table 20.3

in USD millions, for the years ended December 31	Rate	2012	Rate	2011
Net income before income taxes		5,462		4,738
less: income tax (expense)/benefit attributable to policyholders		(194)		242
Net income before income taxes attributable to shareholders		5,268		4,979
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	1,159	22.0%	1,095
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*239*		260
Tax exempt and lower taxed income		*(133)*		(82)
Non-deductible expenses		*85*		75
Tax losses previously unrecognized or no longer recognized		*(12)*		5
Prior year adjustments and other		*(37)*		(149)
Actual income tax expense attributable to shareholders	24.7%	1,301	24.2%	1,204
plus: income tax expense/(benefit) attributable to policyholders		194		(242)
Actual income tax expense	**27.4%**	**1,496**	**20.3%**	**963**

Table 20.3 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

Consolidated financial statements *continued*

Current tax receivables and payables

Table 20.4

in USD millions, as of December 31	2012	2011
Current tax receivables	1,198	825
Current tax payables	(1,101)	(947)
Net current tax receivables/(payables)	**96**	**(122)**

Deferred tax assets and liabilities

Table 20.5

in USD millions, as of December 31	2012	2011
Deferred tax assets	1,854	2,076
Deferred tax liabilities	(5,238)	(4,569)
Net deferred tax liabilities	**(3,384)**	**(2,493)**

Development of net deferred tax liabilities

Table 20.6

in USD millions	2012	2011
As of January 1	(2,493)	(2,415)
Net change recognized in the income statement	(463)	136
Net change recognized in equity	(409)	376
Net changes due to acquisitions/(divestments)	44	(618)
Foreign currency translation effects	(63)	28
As of December 31	**(3,384)**	**(2,493)**

As of December 31, 2012 and 2011, respectively, USD 6 million was debited and USD 404 million was credited as deferred tax to shareholders' equity, net of foreign currency translation effects.

The net deferred tax liabilities related to non-controlling interests amounted to USD 577 million and USD 614 million as of December 31, 2012 and 2011, respectively.

Deferred taxes – policyholder/shareholder attribution

Table 20.7

in USD millions, as of December 31	2012	2011
Net deferred tax liabilities attributable to policyholders	(321)	(154)
Net deferred tax liabilities attributable to shareholders	(3,063)	(2,339)
Net deferred tax liabilities	**(3,384)**	**(2,493)**

Deferred tax assets/(liabilities) analysis by source

Table 20.8

in USD millions, as of December 31	2012 Assets	2012 Liabilities	2011 Assets	2011 Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	35	(677)	24	(655)
Depreciable and amortizable assets	45	(63)	30	(73)
Life policyholders' benefits and deposits [1]	13	(15)	96	(49)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	251	(511)	410	(522)
Accruals and deferred income	158	(1)	191	(2)
Reserves for losses and loss adjustment expenses	434	(132)	457	(4)
Reserves for unearned premiums	765	(59)	729	(61)
Pensions and other employee benefits	544	–	541	–
Other assets/liabilities	785	(89)	756	(296)
Tax loss carryforwards	484	–	617	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,514	(1,549)	3,851	(1,662)
Valuation allowance	(112)	–	(113)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,403	(1,549)	3,738	(1,662)
Deferred tax assets	**1,854**		**2,076**	
Deferred acquisition and origination costs	89	(2,662)	60	(2,565)
Depreciable and amortizable assets	247	(2,585)	287	(2,620)
Life policyholders' benefits and deposits [1]	1,162	(961)	956	(777)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	209	(1,364)	303	(1,075)
Accruals and deferred income	116	(94)	109	(169)
Reserves for losses and loss adjustment expenses	149	(82)	142	(243)
Reserves for unearned premiums	50	(72)	47	(64)
Deferred front-end fees	616	–	634	–
Pensions and other employee benefits	482	(40)	457	(37)
Other assets/liabilities	744	(1,357)	923	(1,128)
Tax loss carryforwards	127	–	203	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,992	(9,218)	4,121	(8,678)
Valuation allowance	(12)	–	(12)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,980	(9,218)	4,109	(8,678)
Deferred tax liabilities		**(5,238)**		**(4,569)**
Net deferred tax liabilities		**(3,384)**		**(2,493)**

[1] Includes reserves for unit-linked contracts.

The Group's deferred tax assets and liabilities are recorded by its tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. Legal entities are grouped as a single taxpayer only when permitted by local legislation and when deemed appropriate. The first part of table 20.8 includes single taxpayers with a net deferred tax asset position and the second part includes single taxpayers with a net deferred tax liability position.

As of December 31, 2012 and 2011, the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized amount to approximately USD 22 billion and USD 21 billion, respectively. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

Consolidated financial statements *continued*

Tax losses carryforwards and tax credits

Table 20.9

in USD millions, as of December 31	2012	2011
For which deferred tax assets have been recognized, expiring		
< 5 years	105	170
5 to 20 years	622	1,208
> 20 years or with no time limitation	1,002	1,010
Subtotal	1,729	2,388
For which deferred tax assets have not been recognized, expiring		
5 to 20 years	102	169
> 20 years or with no time limitation	629	598
Subtotal	731	767
Total	**2,460**	**3,155**

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 18.6 percent and 20.6 percent for the years 2012 and 2011, respectively.

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

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income projections and believes that the carrying values of the deferred tax assets as of December 31, 2012, are recoverable.

21. Senior and subordinated debt

Senior and subordinated debt

Table 21.1

in USD millions, as of December 31		2012	2011
Senior debt			
Zurich Insurance Company Ltd	3.75% CHF 500 million notes, due September 2013[6]	545	531
	2.25% CHF 500 million notes, due July 2017[6]	543	529
	2.875% CHF 250 million notes, due July 2021[6]	269	262
	2.375% CHF 525 million notes, due November 2018[6]	568	553
	1.50% CHF 400 million notes, due June 2019[5,6,7]	440	–
	3.375% EUR 500 million notes, due June 2022[5,6,7]	682	–
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million notes, due September 2013[5,6,7]	757	764
Zurich Finance (USA), Inc.	4.50% EUR 1 billion notes, due September 2014[2,6,7]	1,333	1,312
	4.875% EUR 800 million notes, due April 2012[1,6]	–	1,037
	6.50% EUR 600 million notes, due October 2015[3,6,7]	790	776
	Euro Commercial Paper Notes	400	400
Zurich Santander Insurance America S.L.	7.5% EUR 167 million loan, due December 2035	220	236
Other	Various debt instruments payable in more than 1 year	113	141
Senior debt		6,660	6,541
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes[6]	188	184
	7.5% EUR 425 million notes, due July 2039[6]	557	547
	4.25% CHF 700 million perpetual notes[6]	756	735
	4.625% CHF 500 million perpetual notes[6]	539	525
	8.25% USD 500 million perpetual capital notes[6]	495	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes[4,6]	723	690
Zurich Finance (USA), Inc.	5.75% EUR 500 million notes, due October 2023[1,6]	652	641
	4.5% EUR 500 million notes, due June 2025[5,6,7]	705	688
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065	676	674
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 million Trust Preferred Securities, due May 2062	–	250
ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067	498	497
Other	Various debt instruments payable in more than 1 year	73	44
Subordinated debt		5,861	5,476
Total senior and subordinated debt		**12,521**	**12,017**

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

None of the debt instruments listed in table 21.1 were in default as of December 31, 2012 or 2011.

Consolidated financial statements *continued*

Senior and subordinated debt

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

i) Senior debt

Senior debt amounted to USD 6,660 million and USD 6,541 million as of December 31, 2012 and December 31, 2011, respectively.

The increase was primarily due to the issuance of two notes: in June 2012 under its EMTN Programme, Zurich Insurance Company Ltd issued a 1.5% CHF 400 million senior note and a 3.375% EUR 500 million senior note. This was partially offset by the redemption of a 4.875% EUR 800 million senior note issued in 2009 by Zurich Finance (USA) which matured in April 2012 and the translation effects of the U.S. dollar against the currencies in which the notes were issued.

ii) Subordinated debt

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

Subordinated debt amounted to USD 5,861 million and USD 5,476 million as of December 31, 2012 and December 31, 2011, respectively.

The increase is mainly the result of 8.25% USD 500 million perpetual capital notes issued in January 2012 by Zurich Insurance Company Ltd under its EMTN Programme and the translation effects of the U.S. dollar against the currencies in which the notes were issued. This was partially offset by the early redemption of the remaining USD 250 million of 5.875% USD 500 million Series IV Fixed/Floating Trust Preferred Securities issued by ZFS Finance (USA) Trust IV in 2007, which were called in June 2012.

Operational and financial debt

Table 21.2

Indebtedness

in USD millions, as of December 31	Collateralized loans		Senior debt		Subordinated debt		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Operational debt	–	223	829 [1, 2]	864 [1, 2]	28 [2]	–	857	1,086
Financial debt	–	–	5,831	5,678	5,833	5,476	11,664	11,153
Total	**–**	**223**	**6,660**	**6,541**	**5,861**	**5,476**	**12,521**	**12,240**

[1] Operational senior debt includes USD 750 million in senior debt issued under the EMTN Programme by Zurich Finance (Luxembourg) S.A. in September 2009, which was loaned directly to the Group's banking activities. This issue has been recognized as operational debt by Moody's but not by Standard & Poor's.
[2] Operational senior and subordinated debt include an adjustment of USD 100 million for non-recourse debt.

Total operational and financial debt increased by USD 281 million to USD 12.5 billion.

The net increase resulted from the issue of a number of debt instruments during 2012, which were used to re-finance matured debt and early and partial redemptions of debt, as well as for general corporate purposes, partially offset by the repayment of collateralized loans in operational debt. A further increase was due to the translation effects of the U.S. dollar against the currencies in which the notes were issued.

Table 21.3

Description and features of significant subordinated debt

Description	Coupon conditions	Call/ redemption date	Redemption conditions
12.00% EUR 143 million, perpetual capital notes	12.00% payable annually up to July 15, 2014 and then reset quarterly to 3-month EURIBOR plus 10.33%.	Quarterly on or after July 15, 2014	Redeemable in whole at par plus any accrued interest.
7.5% EUR 425 million notes, due July 2039	7.5% payable annually up to July 24, 2019 and then reset quarterly to 3-month EURIBOR plus 5.85%.	Quarterly on or after July 24, 2019	Redeemable in whole or in part at par plus any accrued interest.
4.25% CHF 700 million, perpetual notes	4.25% payable annually up to May 26, 2016 and then reset quarterly to 3-month CHF-Libor plus 3.046%.	Quarterly on or after May 26, 2016	Redeemable in whole or in part at par plus any accrued interest.
4.625% CHF 500 million, perpetual notes	4.625% payable annually up to May 16, 2018 and then reset to the prevailing 7 year CHF mid swap rate plus 2.691%.	Annually on or after May 16, 2018	Redeemable in whole or in part at par plus any accrued interest.
8.25% USD 500 million, perpetual capital notes	8.25% per annum payable quarterly until January 18, 2018. Resets to the 6-Year USD mid swap rate plus 6.84% until January 18, 2024. Resets thereafter every 6 years to the 6-Year USD mid swap rate plus 7.84%.	Quarterly on or after January 18, 2018	Redeemable in whole or in part at par plus any accrued interest.
6.625% GBP 450 million, perpetual notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest plus 2.85%.[1]	Every five years on or after October 2, 2022	Redeemable in whole every five years at par plus any accrued interest.
5.75% EUR 500 million notes, due October 2023	5.75% payable annually up to October 2, 2013 and then reset quarterly to 3-month EURIBOR plus 2.67%.	Quarterly on or after October 2, 2013	Redeemable in whole at par plus any accrued interest.
4.5% EUR 500 million notes, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015	Redeemable in whole at par plus any accrued interest.
Series II 6.45% USD 700 million Fixed/Adjustable Trust Preferred Securities (ECAPS), due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%.[2]	Quarterly on or after June 15, 2016	Redeemable in whole or in part at par plus any accrued interest.
Series V 6.5% USD 1 billion Fixed/Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017	Redeemable in whole or in part at par plus any accrued interest.

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

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Maturity schedule of outstanding debt

Table 21.4

in USD millions, as of December 31	2012		2011	
	Carrying value	Undiscounted cash flows	Carrying value	Undiscounted cash flows
< 1 year	1,702	2,299	1,437	2,032
1 to 2 years	1,356	1,907	1,305	1,823
2 to 3 years	902	1,371	1,324	1,811
3 to 4 years	–	429	917	1,319
4 to 5 years	543	934	–	376
5 to 10 years	2,705	4,340	1,345	2,838
> 10 years	5,313	7,418	5,689	7,625
Total	**12,521**	**18,698**	**12,017**	**17,825**

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/redemption dates, see table 21.3. The total notional amount of debt due in each period is not materially different from the total carrying value disclosed in table 21.4. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2012 and December 31, 2011. All debt is assumed to mature within 20 years of the balance sheet date without refinancing. Floating interest rates are assumed to remain constant as of December 31, 2012 and December 31, 2011. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Interest expense on debt

Table 21.5

in USD millions, for the years ended December 31	2012	2011
Senior debt	221	263
Subordinated debt	348	324
Total	**570**	**586**

Interest expense on debt amounted to USD 570 million and USD 586 as of December 31, 2012 and 2011, respectively. The lower interest expense on senior debt was mainly due to the maturity of the 4.875% EUR 800 million notes in April 2012 as well as the positive impact of refinancing the 3.875% CHF 1 billion notes in July 2011 and the 3.5% CHF 300 million notes in November 2011 at lower rates. This reduction was partially offset by the 7.5% EUR 167 million senior loan to support the Group's business in Latin America and the issuance of two new senior notes under the EMTN Programme in June 2012. By contrast interest expense on subordinated debt increased mainly as a result of the issuance of two new subordinated notes in March 2011 and January 2012, partially offset by the early redemption in June 2012 of the remaining USD 250 million of 5.875% USD 500 million Series IV Fixed/Floating Trust Preferred Securities.

Credit facilities

On December 4, 2012 the Group amended the revolving credit facility agreement dated October 31, 2011 and redenominated the total amount of EUR 2.5 billion maturing in 2018 at the latest into USD 3.2 billion. Farmers Group, Inc. and its subsidiaries ceased to be a borrower and a guarantor under the facility and Zurich Insurance Company Ltd assumed this additional borrowing capacity and became the exclusive guarantor of the total amount of USD 3.2 billion.

In addition, the Group has access to four other revolving credit facilities totaling USD 441 million, of which USD 336 million are expiring in 2014 and USD 75 million in 2015. No borrowings were outstanding under any of these facilities as of December 31, 2012 or December 31, 2011.

22. Shareholders' equity

Table 22.1

Share capital

	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2010	14,658,690	146,586,896	0.10
New shares issued from contingent capital in 2011	79,893	798,926	0.10
As of December 31, 2011	14,738,582	147,385,822	0.10
New shares issued from contingent capital in 2012	91,430	914,301	0.10
As of December 31, 2012	14,830,012	148,300,123	0.10
Authorized, contingent and issued share capital			
As of December 31, 2011	17,129,526	171,295,259	0.10
As of December 31, 2012	17,129,526	171,295,259	0.10

a) Issued share capital

The issued share capital of Zurich Insurance Group Ltd as of December 31, 2012 amounts to CHF 14,830,012.30 divided into 148,300,123 fully paid registered shares with a nominal value of CHF 0.10 each.

b) Authorized share capital

Until March 29, 2014, the Board of Directors of Zurich Insurance Group Ltd is authorized to increase the share capital by an amount not exceeding CHF 1,000,000 by issuing up to 10,000,000 fully paid registered shares with a nominal value of CHF 0.10 each. An increase in partial amounts is permitted. The Board of Directors would determine the date of issue of any such new shares, the issue price, type of payment, conditions for exercising pre-emptive rights, and the commencement of entitlement to dividends.

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

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

c) Contingent share capital

Capital market instruments and option rights to shareholders

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

The Board of Directors is authorized, when issuing bonds or similar debt instruments connected with conversion and/or option rights, to restrict or withdraw the right of shareholders for advance subscription in cases where such bonds are issued for the financing or re-financing of a takeover of an enterprise, of parts of an enterprise, or of participations. If the right for advance subscription is withdrawn by the Board of Directors, the convertible bond or warrant issues are to be offered at market conditions (including standard dilution protection provisions in accordance with market practice) and the new shares are issued at the then current convertible bond or warrant issue conditions.

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

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Employee participation

During 2012 and 2011, 914,301 shares and 798,926 shares, respectively, were issued to employees from contingent share capital under the program described above. As a result, on December 31, 2012 and 2011, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Insurance Group Ltd and its subsidiaries, amounted to CHF 299,514 and CHF 390,944 or 2,995,136 and 3,909,437 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each. Pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board of Directors and takes into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to employees at a price lower than that quoted on the stock exchange.

d) Additional paid-in capital

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

e) Treasury shares

Table 22.2

Treasury shares

number of shares, as of December 31	2012	2011
Treasury shares	1,348,395	1,373,392

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

f) Earnings per share

Table 22.3

Earnings per share

for the years ended December 31	Net income attributable to common shareholders (in USD millions)[1]	Weighted average number of shares	Per share (USD)	Per share (CHF)[2]
2012				
Basic earnings per share	**3,878**	**146,641,273**	**26.44**	**24.79**
Effect of potentially dilutive shares related to share-based compensation plans		739,870	(0.13)	(0.13)
Diluted earnings per share	**3,878**	**147,381,143**	**26.31**	**24.66**
2011				
Basic earnings per share	**3,746**	**145,790,012**	**25.70**	**22.69**
Effect of potentially dilutive shares related to share-based compensation plans		1,103,836	(0.19)	(0.17)
Diluted earnings per share	**3,746**	**146,893,848**	**25.50**	**22.52**

[1] Excludes the net income attributable to preferred shareholders of USD 4 million for the year ended December 31, 2011.
[2] The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2012 and 2011, respectively.

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

23. Employee benefits

The Group had 52,722 and 52,648 employees (full-time equivalents) as of December 31, 2012 and 2011, respectively. Personnel and other related costs incurred for the year ended December 31, 2012 and 2011, were USD 6,109 million and USD 5,890 million, including wages and salaries of USD 4,861 million and USD 4,885 million, respectively.

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

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

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

a) Defined benefit plans

Defined benefit pension plans

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

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

For the defined benefit pension plans, total contributions to funded pension plans and benefit payments by the Group are currently estimated at USD 488 million for 2013 compared with USD 479 million estimated in the previous year for 2012. The actual amounts may differ.

Other defined post-employment benefits

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

Tables 23.1, 23.2 and 23.3 show the funded status of the Group's plans, being the pension plans' assets at fair value less the pension plans' liabilities based on the present value of the obligations. Plans that are wholly unfunded are shown separately from plans that are wholly or partly funded.

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Table 23.1

Status of funded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans					Other defined post-employment benefits				
	2012	2011	2010	2009	2008	**2012**	2011	2010	2009	2008
Present value of funded obligations	(19,043)	(17,189)	(14,978)	(13,966)	(12,680)	(2)	(1)	–	(70)	(93)
Fair value of plan assets	16,268	14,902	13,791	12,622	10,879	–	–	–	–	–
Funded status	(2,775)	(2,287)	(1,186)	(1,344)	(1,801)	(2)	(1)	–	(70)	(92)
Unrecognized past service cost	–	(1)	(1)	–	(1)	–	–	–	–	–
Cumulative impact of asset ceiling	–	(3)	(3)	(15)	(7)	–	–	–	–	–
Liability – funded obligations	**(2,775)**	**(2,291)**	**(1,190)**	**(1,359)**	**(1,808)**	**(2)**	**(1)**	**–**	**(70)**	**(92)**

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

Table 23.2

Status of unfunded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans					Other defined post-employment benefits				
	2012	2011	2010	2009	2008	**2012**	2011	2010	2009	2008
Present value of unfunded obligations	(307)	(289)	(260)	(230)	(210)	(315)	(301)	(295)	(205)	(183)
Unrecognized past service cost	(4)	(5)	(10)	–	–	(14)	(18)	(23)	(28)	(1)
Liability – unfunded obligations	**(311)**	**(293)**	**(270)**	**(229)**	**(209)**	**(329)**	**(319)**	**(318)**	**(234)**	**(184)**

Table 23.3

Status of funded and unfunded defined benefit plans

in USD millions, as of December 31	Defined benefit pension plans					Other defined post-employment benefits				
	2012	2011	2010	2009	2008	**2012**	2011	2010	2009	2008
Liability	**(3,086)**	**(2,585)**	**(1,460)**	**(1,588)**	**(2,017)**	**(331)**	**(320)**	**(319)**	**(303)**	**(277)**

Expense recognized in income

Table 23.4

in USD millions, as of December 31	Defined benefit pension plans 2012	Defined benefit pension plans 2011	Other defined post-employment benefits 2012	Other defined post-employment benefits 2011
Current service cost	(332)	(314)	(10)	(10)
Interest cost	(740)	(745)	(13)	(13)
Expected return on plan assets	608	756	–	–
Past service cost	(11)	(6)	5	5
Gains on curtailment or settlement	43	2	–	12
Net pension expense	**(432)**	**(307)**	**(18)**	**(7)**

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

Fair value of assets held in funded defined benefit plans

Table 23.5

in USD millions, as of December 31	Defined benefit pension plans 2012	Defined benefit pension plans 2011
Mortgage loans	444	465
Cash and cash equivalents	182	193
Equity securities	3,696	3,233
Debt securities	11,002	10,151
Real estate	938	854
Other assets[1]	7	7
Total	**16,268**	**14,902**

[1] UK annuity policies.

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

Movement in funded and unfunded defined benefit plan obligation

Table 23.6

in USD millions	Defined benefit pension plans 2012	Defined benefit pension plans 2011	Other defined post-employment benefits 2012	Other defined post-employment benefits 2011
Benefit obligation as of January 1	(17,478)	(15,238)	(302)	(296)
Current service cost	(332)	(314)	(10)	(10)
Past service cost including plan amendments	(11)	(10)	–	–
Interest cost	(740)	(745)	(13)	(13)
Actuarial gain/(loss) included in other comprehensive income	(1,083)	(1,894)	(3)	(4)
Employee contributions	(51)	(52)	–	(6)
Employer contributions paid directly to meet benefits	30	–	21	–
Benefits paid	628	612	–	20
Effect of curtailments or settlements	254	2	–	12
Foreign currency translation effects	(566)	162	(9)	(5)
Benefit obligation as of December 31	**(19,350)**	**(17,478)**	**(318)**	**(302)**

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Table 23.7

Movement in fair value of plan assets – funded plans

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2012	2011	**2012**	2011
Fair value of plan assets as of January 1	14,902	13,791	–	–
Expected return on plan assets	608	756	–	–
Actuarial gain/(loss) included in other comprehensive income	611	560	–	–
Employer contributions	452	459	–	14
Employee contributions	51	52	–	6
Benefits paid	(628)	(612)	–	(20)
Effect of curtailments or settlements	(211)	–	–	–
Foreign currency translation effects	483	(105)	–	–
Fair value of plan assets as of December 31	**16,268**	**14,902**	**–**	**–**

The actual returns on defined benefit pension plan assets for the years ended December 31, 2012 and 2011 were gains of USD 1,219 million and USD 1,316 million, respectively.

The summary of the balance sheet changes in relation to defined benefit plans and other defined post-employment benefits is shown in table 23.8.

Table 23.8

Movement in liability for funded and unfunded plans

in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
	2012	2011	**2012**	2011
Liability as of January 1	(2,585)	(1,460)	(320)	(319)
Current year expense	(432)	(307)	(18)	(7)
Contributions paid	452	459	–	14
Contributions paid directly to meet benefits	30	–	21	–
Change in liability due to asset ceiling	3	–	–	–
Actuarial gain/(loss) included in other comprehensive income	(473)	(1,333)	(3)	(4)
Foreign currency translation effects	(82)	58	(9)	(5)
Liability as of December 31	**(3,086)**	**(2,585)**	**(331)**	**(320)**

The movements in actuarial gains and losses due to differences between actual and expected experience on the Group's plan assets and defined benefit obligations, together with the impact of changes in actuarial assumptions to reflect economic conditions at the year end are summarized in table 23.9.

Actuarial gain/(loss)

Table 23.9

in USD millions	2012	2011	2010	2009	2008
Actuarial gain/(loss) as of January 1	(4,200)	(2,914)	(2,672)	(2,907)	(1,308)
Experience adjustments on plan liabilities	(212)	(190)	205	(37)	(147)
Experience adjustments on plan assets	611	560	388	318	(1,485)
Changes due to discount rate assumptions	(1,452)	(1,602)	(742)	(103)	223
Changes due to other actuarial assumptions	577	(105)	(65)	144	(392)
Asset ceiling recognition	3	–	11	(7)	51
Foreign currency translation effects	(108)	51	(39)	(80)	152
Total actuarial gain/(loss) as of December 31	**(4,781)**	**(4,200)**	**(2,914)**	**(2,672)**	**(2,907)**
Total actuarial gain/(loss) net of policyholder participation and taxes as of December 31	**(3,308)**	**(2,857)**	**(1,924)**	**(1,762)**	**(1,934)**

The principal financial assumptions used to calculate the Group's major defined benefit pension and defined post-employment benefit obligations and the Group's pension expenses are in table 23.10.

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

Table 23.10

as of December 31				**2012**				2011
	Switzerland	**United Kingdom**	**United States**	**Germany**	Switzerland	United Kingdom	United States	Germany
Discount rate	1.7%	4.7%	3.9%	3.3%	2.1%	5.0%	4.5%	5.4%
Inflation rate	1.5%	3.3%	2.9%	2.3%	1.6%	3.7%	2.2%	1.8%
Expected long-term rate of return on assets	2.6%	4.6%	4.7%	4.3%	3.4%	6.2%	6.4%	4.5%
Expected future salary increases	2.1%	3.8%	4.4%	3.6%	2.2%	4.2%	4.3%	3.1%
Expected future pension increases	1.0%	3.3%	0.0%	2.3%	1.1%	3.7%	0.0%	1.8%
Current average life expectancy for a 65 year old male	21.2	22.9	19.5	18.6	21.1	22.9	19.6	18.4

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

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

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

Table 23.11

as of December 31	2012	2011
	U.S.	U.S.
Discount rate	3.7%	5.0%
Expected increase in long-term health cost – initial rate	7.9%	7.7%
Expected increase in long-term health cost – ultimate rate	4.9%	4.8%

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

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

Table 23.12

in USD millions, as of December 31	1% increase	1% decrease
Effect on total service cost and interest cost	–[1]	–[1]
Effect on benefit obligation	4	(3)

[1] Below USD 1 million.

b) Defined contribution pension plans

Certain of the Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either based on completion of a specified period of continuous service or the date of commencement of employment. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 10 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 132 million and USD 127 million in 2012 and 2011, respectively.

24. Share-based compensation and cash incentive plans

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

a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 490 million and USD 487 million for the years ended December 31, 2012 and 2011, respectively.

b) Share-based compensation plans for employees and executives

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

Table 24.1

Expenses recognized in income

in USD millions, as of December 31	2012	2011
Total option-based expenses	14	35
Total share-based expenses	126	141
Total expenses	**140**	**176**

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

Employee share plans

Share Incentive Plan for employees in the UK

The Group established an Inland Revenue approved Share Incentive Plan and launched the partnership shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Insurance Group Ltd shares at the prevailing market price out of their gross earnings. There were 181 and 252 participants in the plan as of December 31, 2012 and 2011, respectively. The Group also operates the profit-sharing element of the Share Incentive Plan (reward shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on the business operating profit (BOP) after tax for the year, for the business unit of each participating employee. Individual awards are subject to a maximum of 5 percent of a participant's base salary (before any flexible benefit adjustments) with an overall maximum of GBP 3,000. The total number of participating employees in the reward share element of the plans as of December 31, 2012 and 2011 was 5,289 and 4,463 respectively.

Share Incentive Plan for employees in Switzerland

Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is equivalent to CHF 3,500 per employee per annum. During 2012, 4,894 employees were eligible to participate in the share incentive plan for employees in Switzerland compared with 5,448 in 2011. For the years ended December 31, 2012 and 2011, 1,385 and 1,084 employees, respectively, purchased shares under the 2011 and 2010 share plan.

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The Group Long-Term Incentive Plan
Participants in this plan are granted a target number of performance shares in shares of Zurich Insurance Group Ltd in April each year, such that the economic value is a defined percentage of the annual salary of each participant in the year of grant. Performance shares vest on an annual basis over the subsequent three year period, with the actual level of vesting being between 0 percent and 175 percent of the original shares granted, with an additional discretion to increase vesting to a maximum of 200 percent, depending on the performance of the Group over the previous three calendar years. Performance metrics used to determine the level of vesting are the Group's return on equity and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. One half of the shares that actually vest are sales-restricted for a further three years. As of December 31, 2012 and 2011 there were 1,129 and 1,152 participants in the plan, respectively.

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

c) Further information on performance share and option plans

Table 24.2

Movements in options under the Group Long-Term Incentive Plan

	Number of shares under option		Weighted average exercise price (in CHF)	
	2012	2011	**2012**	2011
As of January 1	3,268,779	3,693,558	285	281
Options vesting	444,277	828,407	240	261
Options forfeited	(33,940)	(142,385)	258	248
Options exercised	(408,159)	(304,080)	202	206
Options expired during period	(766,373)	(806,721)	273	276
As of December 31	**2,504,584**	**3,268,779**	**295**	**285**
Exercisable options as of December 31	2,261,239	2,587,617	295	285

The average share price for Zurich Insurance Group Ltd shares in 2012 and 2011 was CHF 221.56 and CHF 212.72 respectively.

Table 24.3

Share options exercised during the period

	Amount		Weighted average share price (in CHF)	
	2012	2011	**2012**	2011
Exercise date				
January to April	296,042	255,232	235	260
May to August	33,289	26,388	222	229
September to December	78,828	22,460	238	208
Total	**408,159**	304,080	**232**	232

Table 24.4

Range of exercise prices for options outstanding

in CHF, as of December 31	Number of options		Weighted average contractual life in years		Weighted average remaining expected life in years	
	2012	2011	**2012**	2011	**2012**	2011
Exercise price						
100 to 200	255,683	478,212	7.0	7.0	3.3	4.3
201 to 300	876,150	1,161,398	7.0	7.0	4.3	4.5
301 to 400	1,372,751	1,629,169	7.0	7.1	1.3	2.3
Total	**2,504,584**	3,268,779	**7.0**	7.0	**2.6**	3.4

Table 24.5

Options and shares during the period

for the years ended December 31	Number		Weighted average fair value at grant date (in CHF)	
	2012	2011	**2012**	2011
Shares granted during the period	549,831	537,955	226	244
Options granted during the period[1]	–	–	–	–

[1] Number of options granted for closed plans.

The shares granted during the year are the target allocations made under the Group's Long-Term Incentive Plan. Whether these grants vest or not will depend on whether the performance metrics are achieved. If the performance metrics change from the initial assumptions, the expense is adjusted.

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25. Contingent liabilities, contractual commitments and financial guarantees

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

Table 25.1

Quantifiable commitments and contingencies

in USD millions, as of December 31	**2012**	2011
Commitments under investment agreements	4,225	4,037
Less funded commitments	(3,690)	(3,586)
Remaining commitments under investment agreements	535	451
Guarantees and letters of credit[1]	10,565	10,387
Future operating lease commitments	1,085	1,169
Undrawn loan commitments	20	57
Other commitments and contingent liabilities	41	7

[1] Guarantee features embedded in life insurance products are not included.

Commitments under investment agreements

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

Guarantees and letters of credit

USD 9,104 million of the USD 10,565 million and USD 8,691 million of the USD 10,387 million for financial guarantees and letters of credit as of December 31, 2012 and 2011, respectively, relate to guarantees in the aggregate amount of GBP 5,595 million provided to the directors of a fully owned subsidiary in connection with the rationalization of the Group's top legal holding structure which resulted in the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009. These guarantees will expire in August 2015. In 2012 and 2011, an additional USD 773 million and USD 738 million, respectively, relate to guarantees in the aggregate amount of GBP 475 million which were provided to the directors of a fully owned subsidiary in connection with the repatriation of capital.

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

The Group is active in numerous countries where insurance guarantee funds exist. The design of such funds varies from jurisdiction to jurisdiction. In some, funding is based on premiums written, in others the Group may be called upon to contribute to such funds in case of a failure of another market participant. In addition, in some jurisdictions the amount of contribution may be limited, for example, to a percentage of the net underwriting reserve net of payments already made.

The Group carries certain contingencies in the ordinary course of business in connection with the sale of its companies and businesses. These are primarily in the form of indemnification obligations provided to the acquirer in a transaction in which a Group company is the seller. They vary in scope and duration by counterparty and generally are intended to shift the potential risk of certain unquantifiable and unknown loss contingencies from the acquirer to the seller.

Commitments under lease agreements

The Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 102 million and USD 141 million for the years ended December 31, 2012 and 2011, respectively.

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

Table 25.2

in USD millions, as of December 31	2012	2011
< 1 year	205	192
1 to 2 years	187	192
2 to 3 years	174	168
3 to 4 years	155	154
4 to 5 years	110	142
> 5 years	254	322
Total	**1,085**	1,169

Indemnity agreements

The Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (now Scor Holding (Switzerland) AG) and its successor companies' net exposure for losses arising out of the September 11, 2001 World Trade Center event in New York. As of December 31, 2012 the Group has recorded provisions of USD 44 million, for losses in excess of USD 289 million.

Other contingent liabilities

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

The Group has commitments to provide collateral on certain contracts in the event of a financial strength downgrading for Zurich Insurance Company Ltd from the current AA- by Standard & Poor's. Should the rating by Standard & Poor's fall to A+, then the additional collateral based on information available as of December 31, 2012 and 2011 is estimated to amount to approximately USD 71 million and USD 131 million, respectively.

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

Pledged assets

The majority of assets pledged to secure the Group's liabilities relate to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 9,445 million and USD 8,147 million as of December 31, 2012 and 2011, respectively.

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

Legal proceedings and regulatory investigations

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

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company (Home), plead claims for, inter alia, fraudulent transfer, tortious interference, unfair business practices, alter ego and agency liability relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs allege that pursuant to the recapitalization and subsequent transactions,

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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. Closing arguments were heard on February 22 and 23, 2012, and a decision is pending. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously.

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

26. Fair value of financial assets and financial liabilities

Tables 26.1a and 26.1b compare the fair value of financial assets and financial liabilities with their carrying value.

Table 26.1a

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

in USD millions, as of December 31	Total fair value		Total carrying value	
	2012	2011	**2012**	2011
Cash and cash equivalents	9,098	8,882	9,098	8,882
Available-for-sale securities				
Debt securities	141,597	130,196	141,597	130,196
Equity securities	8,796	8,207	8,796	8,207
Total available-for-sale securities	150,392	138,402	150,392	138,402
Securities at FV through profit or loss				
Trading				
Debt securities	48	42	48	42
Equity securities	410	438	410	438
Designated at FV				
Debt securities	8,937	8,738	8,937	8,738
Equity securities	3,135	4,006	3,135	4,006
Total securities at FV through profit or loss	12,530	13,224	12,530	13,224
Derivative assets	1,750	2,060	1,750	2,060
Held-to-maturity debt securities	5,723	6,182	5,012	5,535
Investments in associates and joint ventures	172	161	172	161
Loans and receivables				
Mortgage loans	11,298	11,607	10,519	11,058
Other loans	14,895	13,724	12,423	11,944
Deposits made under assumed reinsurance contracts	2,583	2,703	2,588	2,711
Mortgage loans given as collateral	–	223	–	223
Receivables	13,611	12,904	13,642	12,939
Total loans and receivables	42,387	41,161	39,172	38,874
Total financial assets	**222,053**	**210,072**	**218,127**	**207,138**
Derivative liabilities	(537)	(663)	(537)	(663)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(1,540)	(1,354)	(1,305)	(1,131)
Liabilities related to investment contracts with DPF	(5,663)	(5,337)	(5,903)	(5,607)
Senior debt	(7,180)	(6,789)	(6,660)	(6,541)
Subordinated debt	(6,379)	(5,153)	(5,861)	(5,476)
Deposits received under ceded reinsurance contracts	(1,482)	(1,477)	(1,558)	(1,560)
Collateralized loans	–	(223)	–	(223)
Other financial liabilities	(1,890)	(1,953)	(1,890)	(1,957)
Obligation to repurchase securities	(1,539)	(1,794)	(1,539)	(1,794)
Total financial liabilities	**(26,210)**	**(24,743)**	**(25,252)**	**(24,952)**

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

Table 26.1b

in USD millions, as of December 31	Total fair value		Total carrying value	
	2012	2011	**2012**	2011
Cash and cash equivalents	1,261	1,280	1,261	1,280
Investments at FV through profit or loss				
Designated at FV				
Debt securities	12,062	11,825	12,062	11,825
Equity securities	100,144	89,535	100,144	89,535
Other loans	8,279	7,739	8,279	7,739
Total investments at FV through profit or loss	120,484	109,099	120,484	109,099
Derivative assets	62	65	62	65
Total	**121,808**	**110,444**	**121,808**	**110,444**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	(50,923)	(44,220)	(50,923)	(44,220)
Derivative liabilities	(5)	(37)	(5)	(37)
Total	**(50,928)**	**(44,256)**	**(50,928)**	**(44,256)**

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

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

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

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

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

Fair value hierarchy – current period

Table 26.2a

in USD millions, as of December 31, 2012	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	44,796	94,064	2,736	141,597
Equity securities	3,526	4,331	939	8,796
Total available-for-sale securities	48,322	98,395	3,675	150,392
Securities at FV through profit or loss				
Trading				
Debt securities	43	5	–	48
Equity securities	–	43	367	410
Designated at FV				
Debt securities	2,737	6,110	90	8,937
Equity securities	383	1,493	1,260	3,135
Total securities at FV through profit or loss	3,163	7,650	1,716	12,530
Derivative assets	2	1,719	30	1,750
Total	**51,487**	**107,765**	**5,421**	**164,672**
Derivative liabilities	(3)	(533)	–	(537)
Total	**(3)**	**(533)**	**–**	**(537)**

Fair value hierarchy – prior period

Table 26.2b

in USD millions, as of December 31, 2011	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Debt securities	40,046	87,888	2,261	130,196
Equity securities	3,346	3,884	977	8,207
Total available-for-sale securities	43,392	91,772	3,239	138,402
Securities at FV through profit or loss				
Trading				
Debt securities	35	7	–	42
Equity securities	–	40	398	438
Designated at FV				
Debt securities	3,155	5,394	189	8,738
Equity securities	483	2,258	1,265	4,006
Total securities at FV through profit or loss	3,673	7,699	1,851	13,224
Derivative assets	4	2,023	33	2,060
Total	**47,069**	**101,494**	**5,123**	**153,686**
Derivative liabilities	(8)	(603)	(52)	(663)
Total	**(8)**	**(603)**	**(52)**	**(663)**

Consolidated financial statements *continued*

Development of 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, 2012	2,261	977	398	189	1,265	33	(52)
Realized gains/(losses) recognized in income	37	31	8	8	10	–	–
Unrealized gains/(losses) recognized in income[1]	(11)	(4)	(7)	4	76	(5)	52
Unrealized gains/(losses) recognized in other comprehensive income	165	58	–	–	–	–	–
Purchases	680	86	29	14	155	–	–
Sales/redemptions/settlements	(1,084)	(212)	(67)	(100)	(245)	–	–
Transfers into Level 3	929	2	–	12	–	–	–
Transfers out of Level 3	(261)	(4)	–	(42)	–	–	–
Foreign currency translation effects	20	5	7	4	(1)	1	–
As of December 31, 2012	**2,736**	**939**	**367**	**90**	**1,260**	**30**	**–**

[1] Presented as impairments for available-for-sale securities, and net capital gains/(losses) and impairments for securities at fair value through profit and loss on Group investments in the consolidated income statements.

During the year ended December 31, 2012, the Group transferred USD 0.9 billion of debt securities from level 2 to level 3. The transfers were mainly the result of higher price volatility and credit rating downgrades of certain asset-backed securities, resulting in a deterioration of the market activity of the instruments.

Development of 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, 2011	3,394	2,836	433	191	1,545	46	(25)
Realized gains/(losses) recognized in income	26	500	6	1	23	–	–
Unrealized gains/(losses) recognized in income[1]	(12)	(61)	19	(10)	28	16	(27)
Unrealized gains/(losses) recognized in other comprehensive income	(14)	(277)	–	–	–	–	–
Purchases	354	630	95	16	34	–	–
Sales/redemptions/settlements	(1,539)	(1,187)	(155)	(16)	(369)	–	–
Transfers into Level 3	79	9	–	1	–	–	–
Transfers out of Level 3	(40)	(1,566)	–	–	–	(27)	–
Foreign currency translation effects	14	92	(1)	7	4	(1)	–
As of December 31, 2011	**2,261**	**977**	**398**	**189**	**1,265**	**33**	**(52)**

[1] Presented as impairments for available-for-sale securities, and net capital gains/(losses) and impairments for securities at fair value through profit and loss on Group investments in the consolidated income statements.

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

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

As of December 31, 2012 and 2011 under level 3, the Group classified asset-backed securities (ABSs) amounting to USD 2.8 billion and USD 2.5 billion, respectively. These ABSs include non-agency backed securities for which the limited market activity observable during the year required the Group's external pricing providers to make certain internal valuation assumptions. To determine the fair value of these investments, pricing providers use valuation models that are based on an expected present value technique.

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

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

Table 26.4a

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

as of December 31, 2012	Less favorable values (relative change)	Decrease of reported fair value USD millions	More favorable values (relative change)	Increase of reported fair value USD millions
Key assumptions				
Discount margins	+20%	(95)	–20%	97
Prepayment rates	–20%	(7)	+20%	8
Recovery rates	–20%	(2)	+20%	2
Default rates	+20%	(10)	–20%	5

Table 26.4b

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

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

As of December 31, 2012 and 2011, under level 3 the Group also classified investments in hedge funds and private equity funds amounting to USD 2.0 billion and USD 1.9 billion, respectively. These investments are valued based on regular reports from the issuing funds and fair values are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments. Investments in hedge funds and private equity funds have not been included in the sensitivity analysis due to the large number of valuation assumptions that while, in total, have a significant effect on the fair value of these investments, when considered individually, the impact of changing them to reasonably possible alternative values would not be significant.

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Unit-linked financial instruments

Fair value hierarchy – current period

Table 26.5a

in USD millions, as of December 31, 2012	Level 1	Level 2	Level 3	Total
Investments at FV through profit or loss				
Designated at FV				
Debt securities	4,357	7,616	88	12,062
Equity securities	42,232	55,171	2,741	100,144
Other loans	–	8,279	–	8,279
Total investments at FV through profit or loss	46,589	71,066	2,829	120,484
Derivative assets	–	62	1	62
Total	**46,589**	**71,127**	**2,830**	**120,547**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	–	(50,923)	–	(50,923)
Derivative liabilities	–	(4)	(1)	(5)
Total	**–**	**(50,927)**	**(1)**	**(50,928)**

Fair value hierarchy – prior period

Table 26.5b

in USD millions, as of December 31, 2011	Level 1	Level 2	Level 3	Total
Investments at FV through profit or loss				
Designated at FV				
Debt securities	5,203	6,493	129	11,825
Equity securities	39,778	45,153	4,604	89,535
Other loans	–	7,739	–	7,739
Total investments at FV through profit or loss	44,981	59,385	4,733	109,099
Derivative assets	–	64	1	65
Total	**44,981**	**59,449**	**4,734**	**109,164**
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	–	(44,220)	–	(44,220)
Derivative liabilities	–	(33)	(3)	(37)
Total	**–**	**(44,253)**	**(3)**	**(44,256)**

Development of financial assets classified under level 3 - current period

Table 26.6a

in USD millions	Securities at FV through profit or loss	
	Designated at FV	
	Debt securities	Equity securities
As of January 1, 2012	129	4,604
Realized gains/(losses) recognized in income	1	402
Unrealized gains/(losses) recognized in income	6	(93)
Purchases	–	27
Sales/redemptions	(14)	(2,194)
Transfers into level 3	–	4
Transfers out of level 3	(38)	(11)
Foreign currency translation effects	5	2
As of December 31, 2012	**88**	**2,741**

Development of financial assets classified under level 3 - prior period

Table 26.6b

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

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27. Related party transactions

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

Table 27.1 sets out related party transactions with equity method accounted investments, reflected in the consolidated income statements and consolidated balance sheets.

Related party transactions included in the Consolidated financial statements

Table 27.1

in USD millions		
for the years ended December 31,	**2012**	2011
Net earned premiums and policy fees	13	28
Net investment result on Group investments	18	15
Insurance benefits and losses, net of reinsurance	(9)	(4)
Underwriting and policy acquisition costs, net of reinsurance	(1)	(2)
Administrative and other operating expense	(2)	(2)
as of December 31,	**2012**	2011
Other loans	18	21
Deposits made under assumed reinsurance contracts	4	5
Receivables and other assets	5	7
Reserves for insurance contracts	(11)	(11)
Other liabilities	(1)	(3)

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

Related party transactions – key personnel

Table 27.2

in USD millions, for the years ended December 31	**2012**	2011
Remuneration of key personnel of the Group		
Cash compensation, current benefits and fees	31	33
Post-employment benefits	3	3
Share-based compensation	14	19
Total remuneration of key personnel	**48**	55

As of December 31, 2012 and 2011 there were no loans, advances or credits outstanding from members of the Group Executive Committee. Outstanding loans and guarantees granted to members of the Board of Directors amounted to USD 3 million for both the years ended December 31, 2012 and December 31, 2011. The terms "members of the Board of Directors" and "members of the Group Executive Committee" in this context include the individual as well as members of their respective households. The figures in table 27.2 include the fees paid to members of the Board of Directors of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd, which were USD 5 million for both the years ended December 31, 2012 and December 31, 2011.

No provision for non-repayment has been required in 2012 and 2011 for the loans or guarantees made to members of the Group Executive Committee.

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

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

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28. Farmers Exchanges

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

a) Certificates of contribution issued by the Farmers Exchanges
As of December 31, 2012 and 2011, FGI and other Group companies held the following certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 28

Surplus Notes

in USD millions, as of December 31	2012	2011
6.15% certificate of contribution, due June 2021	707	707
6.15% certificate of contribution, due June 2021	140	140
6.15% certificate of contribution, due June 2021	60	60
4.65% certificate of contribution, due December 2013	150	150
Various other certificates of contribution	23	23
Total	**1,080**	**1,080**

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

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

Auto Physical Damage Quota Share reinsurance agreement
The Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges provides for annual ceded premiums of USD 1 billion with 20.0 percent assumed by Farmers Re Co (USD 200 million) and 80.0 percent assumed by ZIC (USD 800 million), a 25.8 percent ceding commission for acquisition expenses, and an 8.2 percent ceding commission for unallocated loss adjustment expenses. In addition, Farmers Re Co and ZIC assume a quota share percentage of ultimate net losses sustained by the Farmers Exchanges in their APD lines of business. The APD agreement also includes provisions for additional experience commissions that will depend on loss experience and recoveries below a specified ratio for each year. This experience commission arrangement limits Farmers Re Co and ZIC's potential underwriting gain on the assumed business to 2.0 percent of premiums assumed plus 20.0 percent of the underwriting gain resulting from a combined ratio under 98.0 percent. The APD agreement can be cancelled after 90 days notice by any of the parties.

Effective January 1, 2012, the APD agreement was replaced with a new APD treaty with substantially the same terms as the prior agreement but with the ceding commission for acquisition expenses ranging between 27.1 percent and 29.1 percent and the ceding commission for unallocated loss adjustment expenses ranging between 8 percent and 10 percent, both based on a previous 5 year average experience. In addition, the experience commission was eliminated.

Farmers Exchanges' share of ceded premiums amounted to USD 1 billion for both the years ended December 31, 2012 and 2011. Ceded incurred losses and loss adjustment expenses totaled USD 723 million and USD 709 million for the years ended December 31, 2012 and 2011, respectively. Farmers Exchanges' share of the total commission income was USD 290 million and USD 268 million for the years ended December 31, 2012 and 2011, respectively.

All Lines Quota Share reinsurance agreement

Certain of the Farmers Exchanges participate in an All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Re Co and ZIC which has been amended over the years, with the participation ratio at 12 percent as of December 31, 2010. The All Lines agreement provided for a cession of a quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied. The All Lines agreement, which can be terminated after 90 days notice by any of the parties, also provides for the Farmers Exchanges to receive a provisional ceding commission of 26.7 percent, 9.0 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses. In addition, under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1.2 billion.

Effective December 31, 2011, the All Lines agreement was amended subsequent to which Farmers Re Co and ZIC entered into a 20.0 percent All Lines agreement, under which each assumes a percentage of all lines of business written by the Farmers Exchanges, prospectively. Under the All Lines agreement, which amended the 12.0 percent All Lines agreement in effect since December 31, 2010, Farmers Re Co and ZIC assume a 4.0 percent and 16.0 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied. In addition, under the All Lines agreement, the Farmers Exchanges catastrophe losses are subject to a maximum of USD 1.2 billion. As a result, Farmers Re Co and ZIC are subject to a maximum annual catastrophe loss of USD 48.0 million and USD 192 million, respectively. Unearned premiums totaling USD 527 million were transferred from the Farmers Exchanges to Farmers Re Co and ZIC as a result of their increased participation in the All Lines agreement as from December 31, 2011. In addition, Farmers Re Co and ZIC remitted USD 141 million of reinsurance commissions to the Farmers Exchanges for acquisition expenses due to the increased participation in the All Lines agreement. Ceded premiums earned and commissions were USD 1,984 million and USD 635 million, respectively, and recoveries totaled USD 1,396 million, for the year ended December 31, 2011.

Subject to the approval of the California Department of Insurance, effective December 31, 2012, the All Lines agreement was amended such that Farmers Re Co assume a 2.5 percent instead of 4 percent quota share and ZIC continues to assume a 16.0 percent quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied. The remaining 1.5 percent quota share is assumed by a third party on the same terms as Farmers Re Co and ZIC. Unearned premiums totaling USD 102 million were transferred from Farmers Re Co to the Farmers Exchanges as a result of its decreased participation in the All Lines agreement effective December 31, 2012. In addition, the Farmers Exchanges remitted USD 27 million of reinsurance commissions to Farmers Re for acquisition expenses due to the decreased participation in the All Lines agreement.

Based on the results for 2012, ceded premiums earned and commissions were USD 3,418 million and USD 1,094 million, respectively, and recoveries totaled USD 2,475 million, for the year ended December 31, 2012.

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29. Segment information

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

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

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

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

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

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

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

The Group also manages two of the three core segments on a secondary level.

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

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

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

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

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

Consolidated financial statements *continued*

Business operating profit by business segment

Table 29.1

in USD millions, for the years ended December 31	General Insurance 2012	General Insurance 2011	Global Life 2012	Global Life 2011
Revenues				
Direct written premiums[1]	33,393	32,379	11,043	9,335
Assumed written premiums	2,217	2,193	102	97
Gross Written Premiums	35,610	34,572	11,145	9,432
Policy fees	–	–	2,445	2,152
Gross written premiums and policy fees	35,610	34,572	13,590	11,583
Less premiums ceded to reinsurers	(5,874)	(5,325)	(710)	(682)
Net written premiums and policy fees	29,736	29,247	12,880	10,901
Net change in reserves for unearned premiums	(540)	(171)	(259)	(36)
Net earned premiums and policy fees	29,195	29,076	12,621	10,865
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,587	2,807	4,833	4,575
Net investment income on Group investments	2,516	2,799	3,991	4,146
Net capital gains/(losses) and impairments on Group investments	71	8	842	429
Net investment result on unit-linked investments	–	–	9,703	(3,548)
Other income	992	922	1,047	1,012
Total BOP revenues	32,774	32,805	28,203	12,904
of which: inter-segment revenues	*(510)*	*(576)*	*(367)*	*(343)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	20,527	20,939	9,592	9,503
Losses and loss adjustment expenses, net	20,547	20,919	–	59
Life insurance death and other benefits, net[1]	(20)	20	9,592	9,444
Policyholder dividends and participation in profits, net	4	9	10,781	(2,826)
Income tax expense/(benefit) attributable to policyholders	–	–	194	(242)
Underwriting and policy acquisition costs, net	5,833	5,581	2,804	2,029
Administrative and other operating expense (excl. depreciation/amortization)	3,894	3,674	2,536	2,394
Interest credited to policyholders and other interest	18	24	403	395
Restructuring provisions and other items not included in BOP	(113)	(238)	(113)	(130)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	30,163	29,988	26,196	11,123
Business operating profit (before interest, depreciation and amortization)	**2,611**	**2,817**	**2,007**	**1,781**
Depreciation and impairments of property and equipment	110	85	32	30
Amortization and impairments of intangible assets	211	278	483	315
Interest expense on debt	141	209	22	56
Business operating profit before non-controlling interests	2,149	2,245	1,471	1,380
Non-controlling interests	52	(2)	132	26
Business operating profit	**2,097**	**2,247**	**1,338**	**1,353**

[1] The Global Life segment includes approximately USD 603 million and USD 936 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2012 and 2011, respectively (see note 3).

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	–	–	–	–	114	150	–	–	44,550	41,864
	4,361	3,529	116	141	113	144	(175)	(220)	6,734	5,884
	4,361	3,529	116	141	227	294	(175)	(220)	51,285	47,748
	–	–	–	–	248	300	–	–	2,692	2,452
	4,361	3,529	116	141	475	594	(175)	(220)	53,977	50,200
	–	–	(50)	(59)	(21)	(704)	175	220	(6,481)	(6,550)
	4,361	3,529	66	82	454	(110)	–	–	47,496	43,650
	56	(545)	–	1	1	2	–	–	(741)	(751)
	4,418	2,984	66	83	455	(108)	–	–	46,755	42,899
	2,846	2,767	–	–	–	–	–	–	2,846	2,767
	124	133	396	524	318	987	(658)	(847)	7,599	8,180
	124	133	396	524	342	429	(658)	(847)	6,711	7,185
	–	–	–	–	(24)	558	–	–	889	995
	–	–	–	–	565	4	–	–	10,268	(3,544)
	101	64	931	920	113	105	(1,515)	(1,534)	1,669	1,488
	7,489	5,948	1,393	1,527	1,450	988	(2,173)	(2,381)	69,136	51,790
	(69)	*(67)*	*(1,171)*	*(1,336)*	*(56)*	*(59)*	*2,173*	*2,381*	–	–
	3,198	2,105	56	58	380	475	–	–	33,752	33,080
	3,198	2,105	(1)	1	27	(622)	(3)	3	23,769	22,465
	–	–	56	57	353	1,097	3	(3)	9,983	10,615
	–	–	–	–	694	133	–	–	11,479	(2,685)
	–	–	–	–	–	–	–	–	194	(242)
	1,383	902	–	16	2	9	(9)	(20)	10,014	8,516
	1,334	1,290	1,148	1,193	147	213	(1,483)	(1,490)	7,576	7,274
	–	–	6	10	52	57	(3)	(7)	475	479
	3	(10)	(24)	(107)	(1)	1	–	–	(248)	(483)
	5,918	4,288	1,186	1,170	1,274	888	(1,495)	(1,517)	63,243	45,940
	1,571	**1,660**	**207**	**357**	**175**	**100**	**(678)**	**(864)**	**5,892**	**5,851**
	53	56	15	14	1	5	–	–	210	191
	100	118	79	93	1	1	–	–	874	805
	3	–	1,038	1,085	44	100	(678)	(864)	570	586
	1,414	1,486	(925)	(835)	129	(7)	–	–	4,238	4,269
	–	–	(22)	–	1	1	–	–	164	26
	1,414	**1,486**	**(903)**	**(835)**	**128**	**(8)**	**–**	**–**	**4,075**	**4,243**

Consolidated financial statements *continued*

Reconciliation of BOP to net income after income taxes

Table 29.2

in USD millions, for the years ended December 31	General Insurance		Global Life	
	2012	2011	**2012**	2011
Business operating profit	**2,097**	**2,247**	**1,338**	**1,353**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	1,051	526	352	407
Net gain/(loss) on divestments of businesses	(38)	(5)	3	16
Restructuring provisions	(114)	(145)	(83)	(69)
Net income/(expense) on intercompany loans[1]	(21)	(49)	(2)	(14)
Other adjustments	22	(45)[2]	(28)	(48)[3]
Add back:				
Business operating profit attributable to non-controlling interests	52	(2)	132	26
Net income before shareholders' taxes	**3,049**	**2,528**	**1,712**	**1,672**
Income tax expense/(benefit) attributable to policyholders	–	–	194	(242)
Net income before income taxes	**3,049**	**2,528**	**1,906**	**1,431**
Income tax expense				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

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

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	1,414	**1,486**	**(903)**	**(835)**	**128**	**(8)**	**4,075**	**4,243**
	18	(12)	(149)	230	41	37	1,312	1,187
	–	–	1	(5)	–	–	(34)	6
	(1)	(9)	(11)	–	(1)	–	(211)	(222)
	–	–	23	65	–	–	–	2
	5	(1)	(36)	(172)[4]	–	1	(38)	(263)
	–	–	(22)	–	1	1	164	26
	1,435	**1,464**	**(1,097)**	**(716)**	**169**	**31**	**5,268**	**4,979**
	–	–	–	–	–	–	194	(242)
	1,435	**1,464**	**(1,097)**	**(716)**	**169**	**31**	**5,462**	**4,738**
							(1,496)	(963)
							(194)	242
							(1,301)	(1,204)
							3,967	**3,775**
							89	25
							3,878	3,750

Consolidated financial statements *continued*

Assets and liabilities by business segment

Table 29.3

in USD millions, as of December 31	General Insurance		Global Life	
	2012	2011	**2012**	2011
Assets				
Total Group Investments	89,557	84,514	113,305	104,643
Cash and cash equivalents	10,795	8,267	3,096	3,342
Equity securities	5,716	5,413	4,467	5,392
Debt securities	65,556	63,097	79,626	69,502
Real estate held for investment	2,827	2,911	5,334	5,130
Mortgage loans	1,460	1,472	7,934	8,177
Other loans	3,197	3,350	12,779	13,035
Investments in associates and joint ventures	7	6	69	65
Investments for unit-linked contracts	–	–	113,349	102,768
Total investments	89,557	84,514	226,653	207,411
Reinsurers' share of reserves for insurance contracts	13,901	13,660	1,983	2,079
Deposits made under assumed reinsurance contracts	46	71	29	19
Deferred policy acquisition costs	3,543	3,482	14,466	13,584
Deferred origination costs	–	–	770	824
Goodwill	852	827	435	413
Other intangible assets	1,375	1,484	4,366	4,856
Other assets[1]	15,642	14,934	6,669	7,167
Total assets (after cons. of investments in subsidiaries)	**124,916**	**118,972**	**255,372**	**236,354**
Liabilities				
Liabilities for investment contracts	–	–	58,131	50,958
Reserves for insurance contracts, gross	82,693	81,029	158,533	148,076
Reserves for losses and loss adjustment expenses, gross	66,542	64,311	–	39
Reserves for unearned premiums, gross	16,023	15,356	–	970
Future life policyholders' benefits, gross	96	92	78,718	75,432
Policyholders' contract deposits and other funds, gross	32	1,269	17,572	14,300
Reserves for unit-linked contracts, gross	–	–	62,243	57,337
Senior debt	6,625	5,354	289	466
Subordinated debt	617	1,038	334	333
Other liabilities[2]	13,970	13,255	18,067	18,502
Total liabilities	**103,905**	**100,676**	**235,354**	**218,335**
Equity				
Common shareholders' equity				
Preferred securities				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	331	368	150	176

[1] As of December 31, 2012 the General Insurance, the Global Life and Farmers segments included assets held for sale amounting to USD 36 million, USD 22 million and USD 31 million, respectively, relating to land and buildings formerly classified as real estate held for investment and the General Insurance segment also includes assets held for sale amounting to USD 10 million, relating to land and buildings formerly classified as real estate held for own use. As of December 31, 2011, the General Insurance and Global Life segments included assets held for sale amounting to USD 38 million and USD 17 million, respectively, relating to the sale of a company in Bolivia (see note 5).

[2] As of December 31, 2011, the General Insurance and Global Life segments included liabilities held for sale amounting to USD 41 million and USD 14 million, respectively, relating to the sale of a company in Bolivia (see note 5).

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
3,881	4,267	18,503	19,099	12,246	13,119	(28,785)	(27,965)	208,707	197,677
377	580	8,562	8,608	2,517	2,637	(16,249)	(14,552)	9,098	8,882
96	93	1,686	1,533	376	219	–	–	12,341	12,650
1,274	1,295	4,707	4,563	6,250	7,016	(1,819)	(962)	155,594	144,511
101	132	43	42	256	258	–	–	8,561	8,472
–	–	–	–	1,125	1,409	–	–	10,519	11,058
2,033	2,168	3,498	4,347	1,633	1,495	(10,717)	(12,451)	12,423	11,944
–	–	9	6	89	84	–	–	172	161
–	–	–	–	11,877	11,508	–	–	125,226	114,276
3,881	4,267	18,503	19,099	24,123	24,626	(28,785)	(27,965)	333,934	311,953
–	–	–	–	4,042	4,509	(174)	(656)	19,753	19,592
2,319	2,141	–	–	194	508	–	(28)	2,588	2,711
337	352	–	–	–	1	–	–	18,346	17,420
–	–	–	–	–	–	–	–	770	824
819	819	–	–	–	–	–	–	2,107	2,060
1,407	1,434	300	286	1	1	–	–	7,448	8,062
1,071	1,009	1,717	1,906	1,345	1,261	(2,122)	(1,927)	24,322	24,350
9,834	**10,023**	**20,520**	**21,291**	**29,705**	**30,906**	**(31,081)**	**(30,575)**	**409,267**	**386,971**
–	–	–	–	–	–	–	–	58,131	50,958
2,841	2,728	36	39	21,303	21,972	(174)	(637)	265,233	253,207
1,580	1,410	27	28	1,969	2,559	(131)	(586)	69,986	67,762
1,262	1,318	4	4	20	22	(9)	(9)	17,300	17,661
–	–	6	6	5,020	5,097	(33)	(42)	83,807	80,584
–	–	–	–	2,420	2,787	–	–	20,024	18,356
–	–	–	–	11,874	11,507	–	–	74,117	68,844
214	125	24,398	22,826	2,554	2,134	(27,421)	(24,365)	6,660	6,541
–	–	5,788	5,432	23	23	(901)	(1,350)	5,861	5,476
1,325	1,635	1,925	3,221	3,818	4,428	(2,586)	(4,224)	36,521	36,816
4,380	**4,488**	**32,148**	**31,517**	**27,699**	**28,557**	**(31,081)**	**(30,575)**	**372,405**	**352,998**
								34,494	31,484
								–	–
								34,494	31,484
								2,368	2,489
								36,862	33,973
								409,267	**386,971**
120	171	150	124	–	–	–	–	751	840

Consolidated financial statements *continued*

General Insurance – Customer segment overview

Table 29.4

in USD millions, for the years ended December 31	Global Corporate		North America Commercial	
	2012	2011	**2012**	2011
Gross written premiums and policy fees	8,609	7,949	10,003	9,777
Net earned premiums and policy fees	5,499	5,350	7,634	7,644
Insurance benefits and losses, net	4,291	4,564	5,453	5,126
Policyholder dividends and participation in profits, net	1	–	3	8
Total net technical expenses	1,159	1,085	2,152	2,196
Net underwriting result	48	(300)	26	315
Net investment income	573	600	827	979
Net capital gains/(losses) and impairments on investments	17	2	44	8
Net non-technical result (excl. items not included in BOP)	(142)	(133)	(199)	(255)
Business operating profit before non-controlling interests	495	169	698	1,048
Non-controlling interests	(1)	–	(1)	–
Business operating profit	496	169	699	1,048
Ratios, as % of net earned premiums and policy fees				
Loss ratio	78.0%	85.3%	71.4%	67.0%
Expense ratio	21.1%	20.3%	28.2%	28.8%
Combined ratio	99.1%	105.6%	99.7%	95.9%

Europe		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
11,882	12,932	5,603	4,425	345	401	(832)	(912)	35,610	34,572
11,772	12,647	4,282	3,377	9	58	–	–	29,195	29,076
8,225	8,980	2,583	2,462	(25)	(192)	–	–	20,527	20,939
–	–	–	–	–	–	–	–	4	9
3,237	3,306	1,644	1,180	11	22	(2)	14	8,200	7,804
310	360	55	(265)	22	228	2	(14)	463	324
785	928	269	236	64	57	(2)	(1)	2,516	2,799
1	(1)	9	–	–	–	–	–	71	8
(414)	(351)	(110)	(118)	(37)	(44)	–	15	(901)	(886)
683	935	224	(147)	49	240	–	–	2,149	2,245
(5)	(11)	58	9	–	–	–	–	52	(2)
687	946	166	(156)	49	240	–	–	2,097	2,247
69.9%	71.0%	60.3%	72.9%	nm	nm	n/a	n/a	70.3%	72.0%
27.5%	26.1%	38.4%	34.9%	nm	nm	n/a	n/a	28.1%	26.9%
97.4%	97.2%	98.7%	107.8%	nm	nm	n/a	n/a	98.4%	98.9%

Consolidated financial statements *continued*

General Insurance – Revenues by region

Table 29.5

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers		of which Global Corporate	
	2012	2011	**2012**	2011
North America				
United States	12,223	11,494		
Canada	928	930		
Bermuda	10	–		
North America	13,160	12,424	3,343	2,838
Europe				
United Kingdom	3,899	3,878		
Germany	3,110	3,387		
Switzerland	3,243	3,408		
Italy	1,879	2,122		
Spain	1,438	1,671		
Rest of Europe	2,718	2,750		
Europe	16,287	17,215	4,279	4,150
Latin America				
Argentina	393	278		
Brazil	920	571		
Chile	470	270		
Mexico	600	291		
Venezuela	257	244		
Rest of Latin America	34	34		
Latin America	2,674	1,687	–	–
Asia-Pacific				
Australia	1,178	1,114		
Hong Kong	210	182		
Japan	780	736		
Taiwan	129	126		
Rest of Asia-Pacific	420	288		
Asia-Pacific	2,717	2,446	581	590
Middle East	183	118	121	80
Africa				
South Africa	460	539		
Morocco	125	130		
Africa	585	669	19	–
Total	**35,607**	**34,559**	**8,342**	**7,659**

Table 29.6

General Insurance – Non-current assets by region

in USD millions, as of December 31	Property/equipment and intangible assets	
	2012	2011
North America		
United States	223	247
Canada	4	6
Bermuda	24	–
North America	252	254
Europe		
United Kingdom	213	199
Germany	210	210
Switzerland	593	589
Italy	34	49
Spain	346	501
Rest of Europe	605	609
Europe	2,001	2,158
Latin America		
Argentina	11	15
Brazil	234	207
Chile	34	32
Mexico	263	261
Venezuela	16	13
Rest of Latin America	5	5
Latin America	561	534
Asia-Pacific		
Australia	74	79
Hong Kong	13	6
Japan	27	33
Taiwan	9	18
Rest of Asia-Pacific	4	4
Asia-Pacific	128	140
Middle East	43	35
Africa		
South Africa	15	19
Morocco	32	31
Africa	46	50
Total	**3,032**	**3,170**

Consolidated financial statements *continued*

Global Life – Overview

Table 29.7

in USD millions, for the years ended December 31	North America		Latin America	
	2012	2011	**2012**	2011
Revenues				
Life insurance deposits	235	298	2,508	274
Gross written premiums[1]	526	509	2,982	650
Policy fees	297	283	24	24
Gross written premiums and policy fees	823	793	3,005	674
Net earned premiums and policy fees	611	579	2,686	645
Net investment income on Group investments	312	330	254	134
Net capital gains/(losses) and impairments on Group investments	–	–	272	–
Net investment result on Group investments	312	330	526	134
Net investment income on unit-linked investments	(34)	(29)	9	8
Net capital gains/(losses) and impairments on unit-linked investments	59	(18)	1,166	(24)
Net investment result on unit-linked investments	24	(47)	1,175	(16)
Other income	92	97	83	15
Total BOP revenues	1,039	960	4,470	778
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	350	339	1,404	447
Policyholder dividends and participation in profits, net	48	(24)	1,196	(13)
Income tax expense/(benefit) attributable to policyholders	–	–	–	–
Underwriting and policy acquisition costs, net	97	123	964	132
Administrative and other operating expense (excl. depreciation/amortization)	140	129	365	142
Interest credited to policyholders and other interest	147	137	36	5
Restructuring provisions and other items not included in BOP	(1)	1	7	3
Total BOP benefits, losses and expenses	781	704	3,972	717
Business operating profit (before interest, depreciation and amortization)	**258**	**256**	**498**	**61**
Depreciation and impairments of property and equipment	1	1	3	2
Amortization and impairments of intangible assets	9	26	223	2
Interest expense on debt	4	2	(6)	9
Business operating profit before non-controlling interests	244	227	277	49
Non-controlling interests	–	–	122	–
Business operating profit	**244**	**227**	**155**	**49**

[1] Europe includes approximately USD 603 million and USD 936 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the years ended December 31, 2012 and 2011, respectively (see note 3).

	Europe		Asia-Pacific and Middle East		Other		Eliminations		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	11,685	13,244	1,636	1,771	605	541	–	–	16,670	16,127
	6,820	7,640	721	560	137	102	(40)	(30)	11,145	9,432
	1,928	1,715	191	125	5	4	–	–	2,445	2,152
	8,748	9,355	912	686	142	106	(40)	(30)	13,590	11,583
	8,405	8,961	786	580	133	100	–	–	12,621	10,865
	3,225	3,562	188	107	11	13	–	–	3,991	4,146
	552	396	18	33	–	–	–	–	842	429
	3,778	3,957	206	140	11	13	–	–	4,833	4,575
	2,026	2,024	79	106	32	30	–	–	2,112	2,139
	5,586	(4,595)	682	(946)	98	(104)	–	–	7,591	(5,687)
	7,612	(2,572)	761	(840)	131	(74)	–	–	9,703	(3,548)
	332	426	190	197	357	280	(6)	(4)	1,047	1,012
	20,126	10,773	1,943	77	631	320	(6)	(4)	28,203	12,904
	7,480	8,455	293	216	64	47	–	–	9,592	9,503
	8,478	(1,920)	919	(801)	139	(69)	–	–	10,781	(2,826)
	170	(255)	25	14	–	–	–	–	194	(242)
	1,401	1,507	204	156	138	111	–	1	2,804	2,029
	1,419	1,562	327	340	291	225	(6)	(5)	2,536	2,394
	192	224	27	28	1	–	–	–	403	395
	(114)	(127)	7	(7)	(13)	–	–	–	(113)	(130)
	19,025	9,446	1,802	(53)	622	314	(6)	(4)	26,196	11,123
	1,101	**1,327**	**141**	**131**	**9**	**6**	**–**	**–**	**2,007**	**1,781**
	21	23	6	4	–	–	–	–	32	30
	242	279	1	3	7	4	–	–	483	315
	21	43	1	–	2	1	–	–	22	56
	817	981	133	123	–	–	–	–	1,471	1,380
	12	27	(2)	(1)	–	–	–	–	132	26
	805	**953**	**135**	**124**	**–**	**–**	**–**	**–**	**1,338**	**1,353**

Consolidated financial statements *continued*

Table 29.8

Global Life – Revenues by region

in USD millions, for the years ended December 31	Gross written premiums and policy fees from external customers		Life insurance deposits	
	2012	2011	**2012**	**2011**
North America				
United States	823	793	235	298
North America	823	793	235	298
Latin America				
Chile	900	348	–	–
Argentina	78	36	47	44
Bolivia	–	12	–	12
Mexico	352	73	–	–
Venezuela	65	57	–	–
Brazil	1,606	148	2,462	218
Uruguay	5	–	–	–
Latin America	3,005	674	2,508	274
Europe				
United Kingdom	1,773	1,539	6,339	6,359
Germany	2,920	3,273	1,966	2,234
Switzerland	2,047	1,964	141	106
Ireland[1]	479	573	2,497	2,036
Spain	906	1,344	163	1,560
Italy	408	361	488	841
Portugal	30	31	42	53
Austria	135	212	49	55
Europe	8,698	9,296	11,685	13,244
Asia-Pacific and Middle East				
Hong Kong	86	89	133	146
Taiwan	–	–	3	–
Indonesia	1	1	2	–
Australia	332	304	83	79
Japan	99	101	21	22
Malaysia	263	85	–	–
Zurich International Life[2]	130	108	1,395	1,525
Asia-Pacific and Middle East	912	687	1,636	1,771
Other				
Luxembourg[1]	5	4	605	541
International Group Risk Solutions[3]	92	66	–	–
Other	97	70	605	541
Total	**13,535**	**11,520**	**16,670**	**16,127**

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

Table 29.9

Global Life – Non-current assets by region

in USD millions, as of December 31	Property / equipment and intangible assets	
	2012	2011
North America		
United States	165	174
North America	165	174
Latin America		
Chile	472	490
Argentina	96	113
Mexico	256	277
Brazil	965	1,156
Latin America	1,789	2,036
Europe		
United Kingdom	426	415
Germany	743	816
Switzerland	81	60
Ireland[1]	2	3
Spain	1,759	1,833
Italy	122	244
Austria	32	6
Europe	3,164	3,378
Asia-Pacific and Middle East		
Hong Kong	8	7
Indonesia	3	3
Japan	3	3
Singapore	1	–
Malaysia	124	109
Zurich International Life	20	5
Asia-Pacific and Middle East	158	127
Other		
Luxembourg[1]	4	4
Other	4	4
Total	**5,280**	**5,719**

[1] Includes assets relating to business written under freedom of services and freedom of establishment in Europe.

Consolidated financial statements *continued*

Farmers – Overview

Table 29.10

in USD millions, for the years ended December 31	Total	
	2012	2011
Farmers Management Services		
Management fees and other related revenues	2,846	2,767
Management and other related expenses	1,467	1,434
Gross management result	1,378	1,333
Other net income (excl. items not included in BOP)	62	36
Business operating profit before non-controlling interest	1,441	1,370
Business operating profit	1,441	1,370
Farmers Re		
Gross written premiums and policy fees	4,361	3,529
Net earned premiums and policy fees	4,418	2,984
Insurance benefits and losses, net	(3,198)	(2,105)
Total net technical expenses	(1,383)	(903)
Net underwriting result	(163)	(23)
Net non-technical result (excl. items not relevant for BOP)	65	58
Net investment income	72	82
Business operating profit before non-controlling interests	(26)	116
Business operating profit	(26)	116
Farmers business operating profit	**1,414**	**1,486**
Ratios, as % of net earned premiums and policy fees		
Farmers Re Combined ratio	103.7%	100.8%
Supplementary information		
Property, equipment and intangible assets	2,403	2,454

Consolidated financial statements *continued*

Other Operating Businesses – Overview

Table 29.11

in USD millions, for the years ended December 31	Holding & Financing	
	2012	2011
Gross written premiums and policy fees	108	133
Net earned premiums and policy fees	58	74
Net investment income	362	489
Other income	85	94
Total BOP revenues	506	657
Insurance benefits and losses, incl. PH dividends, net	57	57
Underwriting and policy acquisition costs, net	–	15
Administrative and other operating expense (excl. depreciation/amortization)	170	170
Other expenses (excl. items not included in BOP)	(14)	(91)
Depreciation, amortization and impairments of property, equipment and intangible assets	8	3
Interest expense on debt	1,042	1,092
Business operating profit before non-controlling interests	(758)	(589)
Non-controlling interests	(22)	–
Business operating profit	**(736)**	**(589)**

	Headquarters		Eliminations		Total	
	2012	2011	2012	2011	2012	2011
	8	8	–	–	116	141
	8	8	–	–	66	83
	39	43	(5)	(8)	396	524
	1,015	960	(169)	(134)	931	920
	1,062	1,011	(175)	(141)	1,393	1,527
	(1)	1	–	–	56	58
	–	–	–	–	–	16
	1,147	1,156	(169)	(133)	1,148	1,193
	(4)	(5)	–	–	(18)	(96)
	86	104	–	–	94	107
	2	2	(6)	(9)	1,038	1,085
	(167)	(246)	–	–	(925)	(835)
	–	–	–	–	(22)	–
	(167)	**(246)**	**–**	**–**	**(903)**	**(835)**

Consolidated financial statements *continued*

Non-Core Businesses – Overview

Table 29.12

in USD millions, for the years ended December 31	Total	
	2012	2011
Gross written premiums and policy fees	475	594
Net earned premiums and policy fees	455	(108)
Insurance benefits and losses, net	380	475
Policyholder dividends and participation in profits, net	694	133
Total net technical expenses	56	76
Net underwriting result	(675)	(792)
Net investment income	66	47
Net capital gains/(losses) and impairments on investments	816	944
Net non-technical result (excl. items not included in BOP)	(78)	(206)
Business operating profit before non-controlling interests	**129**	**(7)**
Non-controlling interests	1	1
Business operating profit	**128**	**(8)**

30. Significant subsidiaries

Significant subsidiaries

Table 30

as of December 31, 2012	Domicile	Segment[1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Australia						
Zurich Australia Limited	Sydney	Global Life	100	100	AUD	0.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Zurich Financial Services Australia Limited	Sydney	General Insurance	100	100	AUD	22.8
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance/Global Life	99.98	99.98	EUR	12.0
Bermuda						
Centre Group Holdings Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
ZCM Holdings (Bermuda) Limited	Hamilton	Non-Core Businesses	100	100	USD	137.0
Zurich International (Bermuda) Ltd.	Hamilton	General Insurance	100	100	USD	9.9
Brazil						
Zurich Santander Brasil Vida e Previdência S.A.[2]	Sao Paulo	Life Insurance	51	51	BRL	1,659.2
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	General Insurance/Global Life	100	100	BRL	684.1
Chile						
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.98	98.98	CLP	24,484.0
Zurich Santander Seguros de Vida Chile S.A.[2]	Santiago	Global Life	51	51	CLP	108,638.5
Cyprus						
Zurich Insurance Holding (Cyprus) Ltd.[3]	Nicosia	General Insurance	100	100	RUB	5.6
Germany						
Deutscher Herold Aktiengesellschaft[4]	Bonn	Global Life	79.83	79.83	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	86.37	86.37	EUR	68.5
Ireland						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Financial Services EUB Holdings Limited	Dublin	Non-Core Businesses	100	100	GBP	0.001
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	8.2
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Italy						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	164.0
Zurich Life and Pensions S.p.A.	Milan	Global Life	100	100	EUR	40.5
Zurich Life Insurance Italia S.p.A.	Milan	Global Life	100	100	EUR	85.8
Luxembourg						
Zurich Eurolife S.A.	Bertrange	Global Life	100	100	EUR	27.0
Zurich Finance (Luxembourg) S.A.	Luxembourg	Other Operating Businesses	100	100	EUR	2.1
Malaysia						
Zurich Insurance Malaysia Berhad	Kuala Lumpur	General Insurance/Global Life	100	100	MYR	579.0

Consolidated financial statements *continued*

Significant subsidiaries (continued)

Table 30

as of December 31, 2012	Domicile	Segment[1]	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Mexico						
Zurich Santander Seguros México, S.A.[2]	Mexico City	General Insurance/Global Life	51	51	MXN	190.0
South Africa						
Zurich Insurance Company South Africa Limited[5]	Johannesburg	General Insurance	84.05	84.05	ZAR	3.0
Spain						
Bansabadell Pensiones, E.G.F.P, S.A.	Barcelona	Global Life	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Barcelona	General Insurance	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros y Reaseguros	Barcelona	Global Life	50	50	EUR	43.9
Zurich Latin America Holding S.L. – Sociedad Unipersonal[2]	Barcelona	Other Operating Businesses	100	100	EUR	43.0
Zurich Santander Holding (Spain), S.L.[2]	Madrid	Global Life	51	51	EUR	94.3
Zurich Santander Holding Dos (Spain), S.L.[2]	Madrid	Global Life	51	51	EUR	40.0
Zurich Santander Insurance America, S.L.[2]	Madrid	Global Life	51	51	EUR	177.0
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Global Life	100	100	EUR	56.4
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	20.4
Zurich Insurance Company Ltd[6]	Zurich	Other Operating Businesses	100	100	CHF	825.0
Zurich Life Insurance Company Ltd[7]	Zurich	Other Operating Businesses	100	100	CHF	60.0
Zurich Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	99.73	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	Istanbul	General Insurance	100	100	TRY	147.8
United Kingdom						
Allied Zurich Holdings Limited	Jersey, Channel Islands	Other Operating Businesses	100	100	GBP	90.7
Eagle Star Insurance Company Limited	Fareham, England	Non-Core Businesses	100	100	GBP	25.0
Sterling ISA Managers Limited	Swindon, England	Global Life	100	100	GBP	92.9
Zurich Assurance Ltd	Swindon, England	Global Life	100	100	GBP	236.1
Zurich Financial Services (UKISA) Limited	Swindon, England	Other Operating Businesses	100	100	GBP	1,492.1
Zurich Holdings (UK) Limited	Fareham, England	Other Operating Businesses	100	100	GBP	137.3
Zurich International Life Limited	Douglas, Isle of Man	Global Life	100	100	GBP	105.6
Zurich Specialties London Limited	Fareham, England	Non-Core Businesses	100	100	GBP	150.0

Table 30

Significant subsidiaries (continued)

as of December 31, 2012	Domicile	Segment[1]	Voting rights %	Ownership interest %		Nominal value of common stock (in local currency millions)
United States of America						
Farmers Group, Inc.[8]	Reno, NV	Farmers	100	100	USD	0.001
Farmers New World Life Insurance Company[8]	Mercer Island, WA	Global Life	100	100	USD	6.6
Farmers Reinsurance Company[8]	Los Angeles, CA	Farmers	100	100	USD	58.8
Farmers Services LLC[9]	Wilmington, DE	Farmers	100	100	USD	–
Zurich American Corporation	Wilmington, DE	Non-Core Businesses	100	100	USD	0.00001
Zurich American Life Insurance Company	Schaumburg, IL	Non-Core Businesses	100	100	USD	2.5
ZFS Finance (USA) LLC V[9]	Wilmington, DE	Other Operating Businesses	100	100	USD	–
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD	5.0
Zurich Finance (USA), Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	0.000001
Zurich Holding Company of America, Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	0.02

[1] The segments are defined in the notes to the Consolidated financial statements, note 29, Segment information.
[2] Relates to Zurich Santander (see note 5).
[3] Zurich Insurance Holding (Cyprus) Limited indirectly holds 99.9% of Zurich Insurance Company Limited in Russia which is a wholly owned subsidiary of the Zurich Insurance Group.
[4] In addition buy out options exist which allow the minority shareholders to sell 15.17 percent of the shares of Deutscher Herold Aktiengesellschaft to the Zurich Insurance Group.
[5] Listed on the Johannesburg Stock Exchange. On December 31, 2012, the company had a market capitalization of ZAR 3,04 billion (ISIN Number 000094496).
[6] The results of the operating activities are included in the General Insurance and Global Life segments, whereas the headquarter's activities are included in Other Operating Businesses.
[7] The results of the operating activities are included in the Global Life segment, whereas the headquarter's activities are included in Other Operating Businesses.
[8] The ownership percentages in Farmers Group, Inc. and its fully owned subsidiaries have been calculated based on the participation rights of Zurich Insurance Group in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.
[9] These entities are LLCs and have no share capital.

Report of the statutory auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Insurance Group Ltd

Report of the statutory auditor on the Consolidated financial statements

As statutory auditor, we have audited the Consolidated financial statements of Zurich Insurance Group Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity, and notes (pages 111 to 152 and 165 to 285), for the year ended December 31, 2012.

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

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

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

Opinion
In our opinion, the Consolidated financial statements for the year ended December 31, 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Richard Burger	Stephen O'Hearn
Audit expert	Global relationship partner
Auditor in charge	

Zurich, February 13, 2013

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

All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors. Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the Farmers Exchanges and in that capacity provide certain non-claims administrative and management services to the Farmers Exchanges. Neither Farmers Group, Inc., nor its parent companies, Zurich Insurance Company Ltd and Zurich Insurance Group Ltd, have any ownership interest in the Farmers Exchanges. Financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Reinsurance Company.

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

Persons requiring advice should consult an independent advisor.

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