Consolidated financial statements (unaudited) 2012

Zurich Insurance Group
Results for the nine months to September 30, 2012

Consolidated financial statements (unaudited)

Contents

Consolidated income statements (unaudited)

in USD millions	Notes	2012 for the three months ended September 30	2011 for the three months ended September 30	2012 for the nine months ended September 30	2011 for the nine months ended September 30
Revenues					
Gross written premiums		11,654	11,002	38,475	36,391
Policy fees		566	584	1,988	1,876
Gross written premiums and policy fees		12,220	11,587	40,463	38,267
Less premiums ceded to reinsurers		(1,586)	(1,493)	(4,926)	(5,436)
Net written premiums and policy fees		10,634	10,094	35,537	32,830
Net change in reserves for unearned premiums		508	553	(1,611)	(1,039)
Net earned premiums and policy fees		11,142	10,647	33,926	31,791
Farmers management fees and other related revenues		714	696	2,134	2,071
Net investment result on Group investments	3	1,989	3,399	6,087	7,616
Net investment income on Group investments		1,659	1,799	5,099	5,454
Net capital gains/(losses) and impairments on Group investments		330	1,601	988	2,162
Net investment result on unit-linked investments	3	4,011	(8,210)	8,004	(7,406)
Net gain/(loss) on divestments of businesses		(36)	7	(35)	17
Other income		480	369	1,274	1,082
Total revenues		18,301	6,909	51,390	35,171
Benefits, losses and expenses					
Insurance benefits and losses, gross of reinsurance	6	9,025	9,919	26,581	28,723
Less ceded insurance benefits and losses	6	(774)	(1,214)	(2,142)	(4,041)
Insurance benefits and losses, net of reinsurance	6	8,251	8,705	24,439	24,681
Policyholder dividends and participation in profits, net of reinsurance	6	4,209	(7,851)	8,799	(6,477)
Underwriting and policy acquisition costs, net of reinsurance		2,528	2,336	7,329	6,338
Administrative and other operating expense		2,310	2,184	6,386	6,003
Interest expense on debt	11	138	154	431	441
Interest credited to policyholders and other interest		119	126	346	370
Total benefits, losses and expenses		17,555	5,653	47,730	31,356
Net income before income taxes		747	1,256	3,660	3,816
Income tax expense	10	(267)	(4)	(937)	(561)
attributable to policyholders	10	(115)	345	(137)	374
attributable to shareholders	10	(152)	(349)	(800)	(935)
Net income after taxes		**479**	1,252	**2,723**	3,254
attributable to non-controlling interests		2	13	22	45
attributable to shareholders		477	1,239	2,701	3,210
in USD					
Basic earnings per share	12	3.25	8.49	18.43	22.00
Diluted earnings per share	12	3.23	8.43	18.34	21.83
in CHF					
Basic earnings per share	12	3.12	7.41	17.31	19.22
Diluted earnings per share	12	3.11	7.36	17.23	19.07

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 (unaudited)

in USD millions, for the nine months ended September 30	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges
2011			
Comprehensive income for the period	3,210	266	29
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		961	76
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(606)	(7)
Deferred income tax (before foreign currency translation effects)		(108)	(39)
Foreign currency translation effects		20	(1)
2012			
Comprehensive income for the period	2,701	1,871	12
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,087	–
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(668)	11
Deferred income tax (before foreign currency translation effects)		(584)	2
Foreign currency translation effects		35	–

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
(1,218)	(922)	37	(152)	(115)	(1,038)	2,172	36	2,209
(1,243)	(206)	47	(182)	(135)	(341)			
25	(588)	–	–	–	(588)			
–	(147)	(10)	40	30	(117)			
–	19	–	(10)	(10)	9			
(514)	1,369	–	10	10	1,380	4,080	48	4,129
(539)	2,548	–	41	41	2,589			
25	(632)	–	–	–	(632)			
–	(582)	–	5	5	(577)			
–	35	–	(36)	(36)	(1)			

Consolidated financial statements *continued*

in USD millions, for the three months ended September 30	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges
2011			
Comprehensive income for the period	1,239	542	34
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		814	(69)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(83)	148
Deferred income tax (before foreign currency translation effects)		(127)	(42)
Foreign currency translation effects		(62)	(4)
2012			
Comprehensive income for the period	477	845	(7)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,437	26
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(295)	(28)
Deferred income tax (before foreign currency translation effects)		(345)	(8)
Foreign currency translation effects		48	3

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
(832)	(255)	3	(220)	(217)	(472)	767	(92)	675
(859)	(113)	4	(379)	(375)	(488)			
26	91	–	–	–	91			
–	(168)	(1)	101	100	(69)			
–	(66)	–	59	59	(7)			
345	1,183	–	(108)	(108)	1,075	1,552	65	1,617
319	1,782	–	(109)	(109)	1,674			
26	(297)	–	–	–	(297)			
–	(353)	–	39	39	(315)			
–	51	–	(38)	(38)	14			

Consolidated financial statements *continued*

Consolidated balance sheets (unaudited)

Assets

in USD millions, as of	Notes	09/30/12	Restated 12/31/11	Restated 01/01/11
Investments				
Total Group investments		204,431	197,677	195,898
Cash and cash equivalents		8,025	8,882	8,182
Equity securities		12,521	12,650	13,729
Debt securities		152,674	144,511	140,254
Real estate held for investment		8,252	8,472	8,274
Mortgage loans		10,592	11,058	11,851
Other loans		12,198	11,944	13,419
Investments in associates and joint ventures		169	161	188
Investments for unit-linked contracts		122,765	114,276	107,947
Total investments	3	327,196	311,953	303,845
Reinsurers' share of reserves for insurance contracts	4	19,493	19,592	18,816
Deposits made under assumed reinsurance contracts		2,565	2,711	2,837
Deferred policy acquisition costs	7	18,063	17,505	16,281
Deferred origination costs	7	792	824	866
Accrued investment income		2,317	2,589	2,749
Receivables and other assets		19,096	17,828	17,671
Mortgage loans given as collateral		–	223	743
Deferred tax assets		1,726	2,076	2,067
Assets held for sale[1]		58	54	–
Property and equipment		1,521	1,580	1,689
Goodwill	8	2,081	2,060	2,104
Other intangible assets	8	7,546	8,062	5,954
Total assets		**402,455**	**387,056**	**375,623**

[1] As of September 30, 2012 there are land and buildings formerly classified as real estate held for investment. As of December 31, 2011 there are assets relating to the sale of a company in Bolivia (see note 2).

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	09/30/12	Restated 12/31/11	Restated 01/01/11
Liabilities				
Reserve for premium refunds		687	611	518
Liabilities for investment contracts	5	55,638	50,958	50,667
Deposits received under ceded reinsurance contracts		1,545	1,560	1,362
Deferred front-end fees		5,958	5,720	5,626
Reserves for insurance contracts	4	261,442	253,022	242,719
Obligations to repurchase securities		1,514	1,794	3,330
Accrued liabilities		3,245	3,147	3,011
Other liabilities		18,746	19,137	18,396
Collateralized loans		–	223	743
Deferred tax liabilities		4,901	4,641	4,554
Liabilities held for sale[1]		–	55	–
Senior debt	11	6,535	6,541	6,453
Subordinated debt	11	5,771	5,476	5,004
Total liabilities		**365,981**	**352,885**	**342,382**
Equity				
Share capital		11	10	10
Additional paid-in capital		8,178	9,907	11,630
Net unrealized gains/(losses) on available-for-sale investments		4,671	2,800	2,468
Cash flow hedges		244	232	56
Cumulative foreign currency translation adjustment		(3,102)	(2,588)	(1,120)
Revaluation reserve		180	180	126
Retained earnings		23,869	21,139	18,259
Common shareholders' equity		34,050	31,680	31,429
Preferred securities		–	–	475
Shareholders' equity		34,050	31,680	31,905
Non-controlling interests		2,423	2,491	1,336
Total equity		**36,474**	**34,171**	**33,241**
Total liabilities and equity		**402,455**	**387,056**	**375,623**

[1] Relates to the sale of a company in Bolivia (see note 2).

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 (unaudited)

in USD millions, for the nine months ended September 30	**2012**	2011
Cash flows from operating activities		
Net income attributable to shareholders	2,701	3,210
Adjustments for:		
Net (gain)/loss on divestments of businesses	35	(17)
(Income)/expense from equity method accounted investments	(11)	(9)
Depreciation, amortization and impairments of fixed and intangible assets	739	716
Other non-cash items	(32)	551
Underwriting activities:	9,281	(5,327)
Reserves for insurance contracts, gross	*5,909*	(1,150)
Reinsurers' share of reserves for insurance contracts	*225*	(975)
Liabilities for investment contracts	*3,635*	(3,401)
Deferred policy acquisition costs	*(671)*	(526)
Deferred origination costs	*57*	22
Deposits made under assumed reinsurance contracts	*149*	460
Deposits received under ceded reinsurance contracts	*(23)*	244
Investments:	(9,844)	7,526
Net capital (gains)/losses on total investments and impairments	*(7,644)*	6,588
Net change in trading securities and derivatives	*(101)*	(174)
Net change in money market investments	*115*	1,473
Sales and maturities		
Debt securities	*78,124*	84,548
Equity securities	*46,956*	39,174
Other	*28,189*	68,250
Purchases		
Debt securities	*(80,551)*	(84,063)
Equity securities	*(46,277)*	(40,155)
Other	*(28,656)*	(68,115)
Proceeds from sale and repurchase agreements	(338)	(1,294)
Movements in receivables and payables	(672)	(184)
Net changes in other operational assets and liabilities	(326)	(360)
Deferred income tax, net	89	(378)
Net cash provided by/(used in) operating activities	1,622	4,434

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

in USD millions, for the nine months ended September 30	2012	2011
Cash flows from investing activities		
Sales of property and equipment	59	60
Purchases of property and equipment	(132)	(171)
Disposal of equity method accounted investments, net	2	5
Acquisitions of companies, net of cash acquired	(97)	(110)
Divestments of companies, net of cash balances	(14)	11
Dividends from equity method accounted investments	1	1
Net cash provided by/(used in) investing activities	(182)	(202)
Cash flows from financing activities		
Dividends paid	(2,692)	(2,863)
Issuance of share capital	84	78
Net movement in treasury shares and preferred securities	25	20
Redemption of preferred securities and transactions with non-controlling interests	–	(476)
Issuance of debt	1,834	1,417
Repayments of debt outstanding	(1,559)	(1,545)
Net cash provided by/(used in) financing activities	(2,308)	(3,368)
Foreign currency translation effects on cash and cash equivalents	61	232
Change in cash and cash equivalents	(806)	1,095
Cash and cash equivalents as of January 1	10,162	9,726
Cash and cash equivalents as of September 30	**9,356**	**10,821**
of which:		
– cash and cash equivalents – Group investments	8,025	8,954
– cash and cash equivalents – unit linked	1,331	1,868
Other supplementary cash flow disclosures		
Other interest income received	5,357	5,832
Dividend income received	1,310	1,367
Other interest expense paid	(763)	(794)
Income tax (paid)	(985)	(920)

Cash and cash equivalents

in USD millions, as of September 30	2012	2011
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,718	6,940
Cash equivalents	3,637	3,882
Total	**9,356**	**10,821**

As of September 30, 2012 and 2011, cash and cash equivalents held to meet local regulatory requirements were USD 1,132 million and USD 1,147 million, respectively.

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

Consolidated financial statements *continued*

Consolidated statements of changes in equity (unaudited)

in USD millions	Share capital	Additional paid-in capital	Net unrealized gains/(losses) on available-for-sale investments
Balance as of December 31, 2010	10	11,630	2,468
Issuance of share capital[1]	–	207	–
Dividends to shareholders[2]	–	(1,912)	–
Redemption of preferred shares[4]	–	(15)	–
Share-based payment transactions	–	(38)	–
Treasury share transactions[5]	–	(11)	–
Total comprehensive income for the period, net of tax	–	–	266
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*266*
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 September 30, 2011	10	9,861	2,735
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]	–	206	–
Dividends to shareholders[3]	–	(1,923)	–
Share-based payment transactions	–	(13)	–
Treasury share transactions[5]	–	1	–
Change of ownership with no loss of control	–	–	–
Total comprehensive income for the period, net of tax	–	–	1,871
Net income	–	–	–
Net unrealized gains/(losses) on available-for-sale investments	–	–	*1,871*
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 September 30, 2012	**11**	**8,178**	**4,671**

1 The number of common shares issued as of September 30, 2012 was 148,235,053 (September 30, 2011: 147,365,078; 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 September 30, 2012 amounted to 1,353,134 (September 30, 2011: 1,378,841; 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
	–	–	–	–	207	–	207	–	207
	–	–	–	–	(1,912)	(4)	(1,916)	(21)	(1,937)
	–	–	–	–	(15)	(462)	(476)	–	(476)
	–	–	–	–	(38)	–	(38)	–	(38)
	–	–	–	45	34	(14)	20	–	20
	29	(1,218)	37	3,054	2,168	4	2,172	36	2,209
	–	*–*	*–*	*3,206*	*3,206*	*4*	*3,210*		
	–	*–*	*–*	*–*	*266*	*–*	*266*		
	29	*–*	*–*	*–*	*29*	*–*	*29*		
	–	*(1,218)*	*–*	*–*	*(1,218)*	*–*	*(1,218)*		
	–	*–*	*37*	*–*	*37*	*–*	*37*		
	–	*–*	*–*	*(152)*	*(152)*	*–*	*(152)*		
	–	–	–	–	–	–	–	42	42
	85	(2,338)	163	21,358	31,874	–	31,874	1,394	33,267
	232	(2,632)	180	21,139	31,636	–	31,636	2,380	34,017
	–	43	–	–	43	–	43	111	154
	232	(2,588)	180	21,139	31,680	–	31,680	2,491	34,171
	–	–	–	–	206	–	206	–	206
	–	–	–	–	(1,923)	–	(1,923)	(36)	(1,959)
	–	–	–	–	(13)	–	(13)	–	(13)
	–	–	–	23	25	–	25	–	25
	–	–	–	(5)	(5)	–	(5)	–	(5)
	12	(514)	–	2,711	4,080	–	4,080	48	4,129
	–	*–*	*–*	*2,701*	*2,701*	*–*	*2,701*		
	–	*–*	*–*	*–*	*1,871*	*–*	*1,871*		
	12	*–*	*–*	*–*	*12*	*–*	*12*		
	–	*(514)*	*–*	*–*	*(514)*	*–*	*(514)*		
	–	*–*	*–*	*10*	*10*	*–*	*10*		
	–	–	–	–	–	–	–	(79)	(79)
	244	**(3,102)**	**180**	**23,869**	**34,050**	**–**	**34,050**	**2,423**	**36,474**

Consolidated financial statements *continued*

1. Basis of presentation

General information

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 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 Authorities 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.

The unaudited Consolidated financial statements for the nine months to September 30, 2012 of Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The accounting policies used to prepare the unaudited Consolidated financial statements comply with International Financial Reporting Standards (IFRS), and are consistent with those set out in the notes to the Consolidated financial statements in the Annual Report 2011 of the Group.

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 gains and losses on transfers of net assets, which are eliminated against equity. In the unaudited Consolidated financial statements inter-segment revenues and transfers are eliminated.

The unaudited Consolidated financial statements for the nine months to September 30, 2012 should be read in conjunction with the Group's Annual Report 2011.

Certain amounts recorded in the unaudited Consolidated financial statements reflect estimates and assumptions made by management about insurance liability reserves, investment valuations, interest rates and other factors. Actual results may differ from the estimates and assumptions made. In addition, interim results are not necessarily indicative of full year results.

All amounts in the unaudited 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 the rounded amounts.

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains on foreign currency transactions included in the consolidated income statements were USD 50 million and USD 81 million for the nine months ended September 30, 2012 and 2011, respectively. Foreign currency exchange forward and swap gains included in these amounts were USD 156 million and USD 81 million for the nine months ended September 30, 2012 and 2011, respectively.

Table 1.1

Principal exchange rates

USD per foreign currency unit	Balance sheets		Income statements and cash flows	
	09/30/2012	12/31/2011	**09/30/2012**	09/30/2011
Euro	1.2863	1.2969	1.2819	1.4076
Swiss franc	1.0657	1.0666	1.0644	1.1446
British pound	1.6133	1.5533	1.5776	1.6146

Implementation of new accounting standards

The following new accounting standards or amendments to and interpretations of standards relevant to the Group have been implemented for the financial year beginning January 1, 2012, with no material impact on the Group's financial position or performance:

Table 1.2

Standard/ Interpretation

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

The Group has not early-adopted the following standards:

Table 1.3

Standard/ Interpretation

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

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 2). In the Group's Consolidated financial statements 2011, total assets of USD 15.6 billion and total liabilities of USD 13.2 billion were booked to receivables and other assets and other liabilities, respectively. The unaudited Consolidated financial statements for the nine months to September 30, 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 1.4 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 and notes 3, 4, 5, 7, 8, and 15 have been restated accordingly.

The Group erroneously classified certain life insurance products. The classification was corrected in 2012 as the impact on the Group's consolidated income statement was not material. The reclassifications in the consolidated balance sheet between liabilities for investment contracts and reserves for unit-linked contracts and between deferred policy acquisition costs and deferred origination costs are set out in notes 4, 5 and 7.

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 4.

Consolidated financial statements *continued*

Restatement and reclassifications of the consolidated balance sheet

Table 1.4

in USD millions, as of December 31, 2011	As reported	Restatement	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	17,505
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**	**387,056**
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	253,022
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	4,641
Liabilities held for sale	55	–	55
Senior debt	6,541	–	6,541
Subordinated debt	5,476	–	5,476
Total liabilities	**351,852**	**1,033**	**352,885**
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	(2,588)
Revaluation reserve	180	–	180
Retained earnings	21,139	–	21,139
Common shareholders' equity	31,636	43	31,680
Shareholders' equity	31,636	43	31,680
Non-controlling interests	2,380	111	2,491
Total equity	**34,017**	**154**	**34,171**
Total liabilities and equity	**385,869**	**1,187**	**387,056**

2. Acquisitions and divestments

Transactions in 2012

Acquisitions

On May 25, 2012, the Group increased its shareholding in Zurich Insurance Company South Africa Limited 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 a currently estimated purchase price reduction of USD 23 million which is reflected in the Consolidated financial statements as of September 30, 2012. 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.

As of September 30, 2012, the Group has 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.

Consolidated financial statements *continued*

Table 2.1 shows the main balance sheet line items as of the acquisition dates, representing the fair value of the companies acquired.

Business combinations

Table 2.1

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 agreements, 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 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 June 30, 2012 is included in the Group's consolidated income statement for the nine months ended September 30, 2012. The main income statement information for Zurich Santander is shown in table 2.2.

Income statement information

Table 2.2

in USD millions	Global Life	General Insurance	Core business total	Other Operating Businesses	Total
Information since acquisition					
Life insurance deposits	1,733	–	1,733	–	1,733
Gross written premiums and policy fees	1,267	431	1,698	–	1,698
Total BOP revenues	1,916	254	2,170	(13)	2,157
Business operating profit before non-controlling interests	139	74	213	(34)	179
Business operating profit after non-controlling interests	71	38	108	(17)	92
Net income after taxes before non-controlling interests					108
Net income after taxes after non-controlling interests					55
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 September 30, 2012, out of the initial consideration of USD 108 million, USD 63 million (initially USD 56 million) was paid in cash, USD 45 million (initially USD 30 million) was placed into 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 from 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.

Consolidated financial statements *continued*

3. Investments

Investment result for total investments

Table 3.1a

in USD millions, for the nine months ended September 30	Net investment income		Net capital gains/(losses) on investments and impairments		Investment result	
	2012	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents	50	49	18	5	68	54
Equity securities	1,352	1,406	6,968	(8,513)	8,320	(7,107)
Debt securities	4,075	4,282	1,393	727	5,467	5,009
Real estate held for investment	608	645	(371)	69	237	714
Mortgage loans	322	374	(80)	(112)	243	263
Other loans	593	659	3	183	595	843
Investments in associates and joint ventures	11	9	3	(50)	14	(41)
Derivative financial instruments[1]	–	–	(289)	1,102	(289)	1,102
Investment result, gross	7,010	7,424	7,644	(6,588)	14,654	836
Investment expenses	(563)	(626)	–	–	(563)	(626)
Investment result, net	**6,447**	**6,798**	**7,644**	**(6,588)**	**14,091**	**210**

[1] Net capital losses on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 27 million and USD 20 million for the nine months ended September 30, 2012 and 2011, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 141 million and USD 150 million for the nine months ended September 30, 2012 and 2011, respectively.

Investment result for Group investments

Table 3.1b

in USD millions, for the nine months ended September 30	Net investment income		Net capital gains/(losses) on investments and impairments		Investment result	
	2012	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents	35	46	–	1	35	47
Equity securities	275	263	322	329	597	592
Debt securities	3,863	4,060	963	687	4,826	4,747
Real estate held for investment	377	399	(74)	111	303	510
Mortgage loans	322	374	(80)	(112)	243	263
Other loans	402	482	22	183	424	666
Investments in associates and joint ventures	11	9	3	(50)	14	(41)
Derivative financial instruments[1]	–	–	(168)	1,012	(168)	1,012
Investment result, gross for Group investments	5,285	5,634	988	2,162	6,273	7,796
Investment expenses for Group investments	(186)	(180)	–	–	(186)	(180)
Investment result, net for Group investments	**5,099**	**5,454**	**988**	**2,162**	**6,087**	**7,616**

[1] Net capital losses on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 27 million and USD 20 million for the nine months ended September 30, 2012 and 2011, respectively.

Impairment charges on Group investments included in net capital gains/losses amounted to USD 152 million and USD 359 million, including impairment charges on mortgage loans and other loans of USD 75 million and USD 112 million, for the nine months ended September 30, 2012 and 2011, respectively.

Table 3.1c

Investment result for unit-linked contracts

in USD millions, for the nine months ended September 30	Net investment income		Net capital gains/(losses) on investments		Investment result	
	2012	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents	15	2	18	4	33	7
Equity securities	1,078	1,143	6,646	(8,842)	7,723	(7,699)
Debt securities	212	222	430	40	642	262
Real estate held for investment	230	246	(297)	(42)	(66)	204
Other loans	190	177	(19)	–	171	177
Derivative financial instruments	–	–	(122)	90	(122)	90
Investment result, gross for unit-linked contracts	1,725	1,790	6,656	(8,750)	8,381	(6,960)
Investment expenses for unit-linked contracts	(377)	(446)	–	–	(377)	(446)
Investment result, net unit-linked contracts	**1,348**	**1,344**	**6,656**	**(8,750)**	**8,004**	**(7,406)**

Table 3.2

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

in USD millions, for the nine months ended September 30	Equity securities		Debt securities		Total	
	2012	2011	**2012**	2011	**2012**	2011
Securities at fair value through profit or loss:	6,832	(8,857)	703	449	7,535	(8,408)
Net capital gains/(losses) on Group investments	186	(15)	273	410	459	394
of which:						
Trading securities	*8*	6	*4*	4	*11*	10
Securities designated at fair value through profit or loss	*178*	(21)	*269*	405	*447*	384
Net capital gains/(losses) for unit-linked contracts	6,646	(8,842)	430	40	7,076	(8,802)
Available-for-sale securities:	136	344	690	277	826	621
Realized capital gains on Group investments	309	676	1,125	984	1,434	1,660
Realized capital losses on Group investments	(120)	(125)	(412)	(666)	(532)	(791)
Impairments on Group investments	(54)	(206)	(23)	(41)	(76)	(247)
Total net capital gains/(losses) and impairments	**6,968**	**(8,513)**	**1,393**	**727**	**8,360**	**(7,786)**

Consolidated financial statements *continued*

Details of total investments by category

Table 3.3a

as of				Total investments
		09/30/12		12/31/11
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	9,356	2.9	10,162	3.3
Equity securities:				
Fair value through profit or loss	101,458	31.0	93,978	30.1
of which:				
Trading securities	*426*	*0.1*	*438*	*0.1*
Securities designated at fair value through profit or loss	*101,032*	*30.9*	*93,540*	*30.0*
Available-for-sale	8,255	2.5	8,207	2.6
Total equity securities	109,713	33.5	102,185	32.8
Debt securities:				
Fair value through profit or loss	21,363	6.5	20,605	6.6
of which:				
Trading securities	*44*	*0.0*	*42*	*0.0*
Securities designated at fair value through profit or loss	*21,319*	*6.5*	*20,563*	*6.6*
Available-for-sale	138,650	42.4	130,196	41.7
Held-to-maturity	4,953	1.5	5,535	1.8
Total debt securities	164,966	50.4	156,335	50.1
Real estate held for investment	11,930	3.6	12,370	4.0
Mortgage loans	10,592	3.2	11,058	3.5
Other loans	20,470	6.3	19,683	6.3
Investments in associates and joint ventures	169	0.1	161	0.1
Total investments	**327,196**	**100.0**	**311,953**	**100.0**

Details of Group investments by category

Table 3.3b

as of				Group investments
		09/30/12		12/31/11
	USD millions	**% of total**	USD millions	% of total
Cash and cash equivalents	8,025	3.9	8,882	4.5
Equity securities:				
Fair value through profit or loss	4,266	2.1	4,443	2.2
of which:				
Trading securities	*426*	*0.2*	*438*	*0.2*
Securities designated at fair value through profit or loss	*3,840*	*1.9*	4,006	2.0
Available-for-sale	8,255	4.0	8,207	4.2
Total equity securities	12,521	6.1	12,650	6.4
Debt securities:				
Fair value through profit or loss	9,071	4.4	8,780	4.4
of which:				
Trading securities	*44*	*0.0*	*42*	*0.0*
Securities designated at fair value through profit or loss	*9,027*	*4.4*	*8,738*	*4.4*
Available-for-sale	138,650	67.8	130,196	65.9
Held-to-maturity	4,953	2.4	5,535	2.8
Total debt securities	152,674	74.7	144,511	73.1
Real estate held for investment	8,252	4.0	8,472	4.3
Mortgage loans	10,592	5.2	11,058	5.6
Other loans	12,198	6.0	11,944	6.0
Investments in associates and joint ventures	169	0.1	161	0.1
Total Group investments	**204,431**	**100.0**	**197,677**	**100.0**

Cash and investments with a carrying value of USD 6,333 million and USD 6,227 million were deposited with regulatory authorities as of September 30, 2012, and December 31, 2011, respectively.

Securities under security lending and repurchase agreements

As of September 30, 2012 and December 31, 2011, respectively, investments included USD 7,163 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 266 million and USD 159 million as of September 30, 2012 and December 31, 2011, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 7,517 million and USD 6,474 million as of September 30, 2012 and December 31, 2011, respectively. The Group can sell or repledge the collateral only in the event of default by a counterparty.

As of September 30, 2012 and December 31, 2011, respectively, debt securities with a carrying value of USD 1,535 million and USD 1,807 million have been sold to financial institutions under 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 1,514 million and USD 1,794 million as of September 30, 2012 and December 31, 2011, respectively.

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

Table 3.3c

Details of investments held for unit-linked contracts

as of	Investments for unit-linked contracts			
	09/30/12		12/31/11	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	1,331	1.1	1,280	1.1
Equity securities	97,192	79.2	89,535	78.3
Debt securities	12,292	10.0	11,825	10.3
Real estate	3,679	3.0	3,898	3.4
Other loans	8,272	6.7	7,739	6.8
Total investments for unit-linked contracts	**122,765**	**100.0**	**114,276**	**100.0**

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

Accrued interest on unit-linked investments disclosed under accrued investment income amounted to USD 203 million and USD 303 million as of September 30, 2012 and December 31, 2011, respectively.

Table 3.4

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

in USD millions, as of	Total	
	09/30/12	12/31/11
Equity securities: available-for-sale	1,428	1,072
Debt securities: available-for-sale	8,128	3,941
Other	303	295
Less: amount of net unrealized gains/(losses) on investments attributable to:		
Life policyholder dividends and other policyholder liabilities	(3,057)	(1,349)
Life deferred acquisition costs and present value of future profits	(441)	(97)
Deferred income taxes	(1,434)	(834)
Minority interests	(13)	3
Total[1]	**4,914**	**3,032**

[1] Net unrealized gains/losses include net gains arising on cash flow hedges of USD 244 million and USD 232 million as of September 30, 2012 and December 31, 2011, respectively.

Consolidated financial statements *continued*

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

Reserves for insurance contracts

Table 4.1

in USD millions, as of	Gross		Ceded		Net	
	09/30/12	12/31/11	**09/30/12**	12/31/11	**09/30/12**	12/31/11
Reserves for losses and loss adjustment expenses	69,270	67,577	(12,123)	(12,421)	57,147	55,156
Reserves for unearned premiums	18,561	17,661	(2,878)	(2,532)	15,683	15,129
Future life policyholders' benefits	82,069	80,584	(2,476)	(2,583)	79,592	78,001
Policyholders' contract deposits and other funds	18,783	18,356	(2,129)	(2,181)	16,654	16,175
Reserves for unit-linked contracts	72,759	68,844	–	–	72,759	68,844
Total reserves for insurance contracts[1]	**261,442**	**253,022**	**(19,606)**	**(19,717)**	**241,835**	**233,305**

[1] The total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 113 million and USD 125 million as of September 30, 2012 and December 31, 2011, respectively.

Development of reserves for losses and loss adjustment expenses

Table 4.2

in USD millions	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
As of January 1	67,577	68,107	(12,421)	(12,093)	55,156	56,014
Losses and loss adjustment expenses incurred:						
Current year	19,617	21,399	(2,050)	(3,700)	17,568	17,699
Prior years	(308)	(1,142)	117	170	(191)	(972)
Total incurred	19,310	20,257	(1,932)	(3,530)	17,377	16,728
Losses and loss adjustment expenses paid:						
Current year	(6,847)	(7,102)	436	544	(6,412)	(6,558)
Prior years	(12,327)	(12,830)	1,890	2,450	(10,437)	(10,380)
Total paid	(19,174)	(19,932)	2,326	2,994	(16,849)	(16,938)
Acquisitions/(divestments) and transfers[1]	1,197	41	(23)	(6)	1,174	36
Foreign currency translation effects	362	(87)	(73)	77	289	(10)
As of September 30	**69,270**	**68,387**	**(12,123)**	**(12,558)**	**57,147**	**55,829**

[1] The 2012 net movement includes a transfer of USD 1,221 million from policyholders' contract deposits and other funds and USD (37) million transferred to future life policyholders' benefits (see note 1).

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 4.2 shows the development of reserves for losses and loss adjustment expenses during the first nine months of 2012. The increase of USD 1,991 million in total net reserves is mostly driven by the reclassification of USD 1,221 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 289 million. Favorable reserve development emerging from reserves established in prior years of USD 191 million was negatively impacted by the reserve strengthening in Germany primarily in the long-tail liability business of USD 528 million. This was offset by favorable development especially experienced in Switzerland's motor line of business, and in the UK and North America spread over many lines of business.

The decrease of USD 185 million in total net reserves for the nine months ended September 30, 2011 includes USD 972 million of favorable reserve development emerging from reserves established in prior years from various regions and lines of business. Favorable development was especially experienced in Switzerland's motor line of business and in North America, where the general liability, motor liability and medical malpractice lines of business and the direct markets book of business were the main contributors. This positive development was partially offset by adverse development relating to weather events during the last few days of 2010 in the UK and Germany and adverse experience in North America's workers compensation business and some general liability portfolios in Germany.

Development of future life policyholders' benefits

Table 4.3

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	6,179	6,450	(409)	(381)	5,770	6,069
Claims	(6,300)	(7,038)	317	318	(5,983)	(6,720)
Fee income and other expenses	(1,462)	(1,592)	138	61	(1,324)	(1,531)
Interest and bonuses credited to policyholders	1,958	2,596	(62)	(152)	1,896	2,445
Change in assumptions	52	352	163	(15)	214	337
Acquisitions/transfers[1]	915	178	(13)	–	903	178
(Decreases)/increases recorded in other comprehensive income	178	114	–	–	178	114
Foreign currency translation effects	(36)	641	(27)	5	(63)	646
As of September 30	**82,069**	**81,016**	**(2,476)**	**(2,587)**	**79,592**	**78,429**

[1] The 2012 net movement includes USD 783 million transferred from Reserves for unearned premiums, USD 67 million transferred from policyholders' contract deposits and other funds, USD 37 million transferred from loss reserves (see note 1) and USD 14 million from the acquisition of ZIMB (see note 2). The 2011 net movement includes reclassifications of USD 212 million transferred from other liabilities to future life policyholders' benefits, partly offset by USD (28) million transferred to liabilities for investment contracts (see note 1 of the Consolidated financial statements 2011).

Policyholders' contract deposits and other funds gross

Table 4.4

in USD millions, as of	**09/30/12**	12/31/11
Annuities[1]	–	1,320
Universal life and other contracts	12,049	11,681
Policyholder dividends	6,735	5,355
Total	**18,783**	**18,356**

[1] Relates to a reclassification 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 4.5

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	871	1,039	(20)	(43)	850	996
Claims	(859)	(1,003)	139	131	(719)	(872)
Fee income and other expenses	(175)	(264)	(40)	14	(215)	(250)
Interest and bonuses credited to policyholders	359	543	(58)	(59)	300	484
Change in assumptions	–	(1)	–	–	–	(1)
Transfers[1]	(1,313)	–	32	–	(1,281)	–
(Decrease)/increase recorded in other comprehensive income	1,526	449	–	–	1,526	449
Foreign currency translation effects	19	60	–	1	18	62
As of September 30	**18,783**	**18,254**	**(2,129)**	**(2,202)**	**16,654**	**16,052**

[1] The 2012 net movement includes USD (1,221) million transferred to loss reserves and loss adjustment expenses and USD (67) million transferred to future life policyholders' benefits (see note 1).

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Development of reserves for unit-linked contracts

Table 4.6

in USD millions	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
As of January 1	68,844	61,786	–	–	68,844	61,786
Premiums	7,970	6,823	–	–	7,970	6,823
Claims	(8,036)	(6,203)	–	–	(8,036)	(6,203)
Fee income and other expenses	(1,185)	(1,182)	–	–	(1,185)	(1,182)
Interest and bonuses credited/(charged) to policyholders	4,840	(3,379)	–	–	4,840	(3,379)
Transfers[1]	149	(143)	–	–	149	(143)
Foreign currency translation effects	176	272	–	–	176	272
As of September 30	**72,759**	**57,974**	**–**	**–**	**72,759**	**57,974**

[1] The 2012 movement includes USD 150 million transferred from liabilities for investment contract liabilities (see note 1). The 2011 movement includes a reclassification of USD (142) million transferred to liabilities for investment contracts (see note 1 of the Consolidated financial statements 2011).

5. Liabilities for investment contracts

Liabilities for investment contracts

Table 5.1

in USD millions, as of	09/30/12	12/31/11
Liabilities related to unit-linked investment contracts	48,781	44,220
Liabilities related to investment contracts (amortized cost)	1,174	1,131
Liabilities related to investment contracts with discretionary participation features	5,683	5,607
Total	**55,638**	**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 derivatives. Policyholders bear the full risk of the returns on these investments.

The value of liabilities related to investment contracts 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 5.2

in USD millions	2012	2011
As of January 1	50,958	50,667
Premiums	4,866	4,868
Claims	(4,635)	(4,436)
Fee income and other expenses	(445)	(436)
Interest and bonuses charged/(credited) to policyholders	3,850	(3,394)
Transfers[1]	(149)	411
Increase/(decrease) recorded in other comprehensive income	(5)	(3)
Foreign currency translation effects	1,198	155
As of September 30	**55,638**	**47,830**

[1] The 2012 movement includes USD (150) million transferred to reserves for unit-linked contracts (see note 1). The 2011 movement includes USD 142 million transferred from reserves for unit-linked contracts, USD 246 million transferred from other liabilities and USD 28 million transferred from future life policyholders' benefits (see note 1 of the Consolidated financial statements 2011).

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6. Gross and ceded insurance revenues and expenses

Insurance benefits and losses

Table 6.1

in USD millions, for the nine months ended September 30	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
Losses and loss adjustment expenses	19,310	20,257	(1,932)	(3,530)	17,377	16,728
Life insurance death and other benefits	7,272	8,465	(210)	(512)	7,062	7,954
Total insurance benefits and losses	**26,581**	**28,723**	**(2,142)**	**(4,041)**	**24,439**	**24,681**

Policyholder dividends and participation in profits

Table 6.2

in USD millions, for the nine months ended September 30	Gross		Ceded		Net	
	2012	2011	**2012**	2011	**2012**	2011
Change in policyholders' contract deposits and other funds	822	482	(19)	–	802	482
Change in reserves for unit-linked products	4,722	(3,936)	–	–	4,722	(3,936)
Change in liabilities for investment contracts – unit-linked	3,315	(3,364)	–	–	3,315	(3,364)
Change in liabilities for investment contracts – other	176	159	–	–	176	159
Change in unit-linked liabilities related to UK capital gains tax	(217)	181	–	–	(217)	181
Total policyholder dividends and participation in profits	**8,819**	**(6,477)**	**(19)**	**–**	**8,799**	**(6,477)**

7. Deferred policy acquisition costs and deferred origination costs

Development of deferred policy acquisition costs

Table 7.1

in USD millions	General Insurance		Global Life		Other segments[1]		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
As of January 1	3,567	3,426	13,584	12,686	353	169	17,505	16,281
Acquisition costs deferred	2,376	2,300	1,405	1,424	703	442	4,484	4,167
Amortization	(2,212)	(2,158)	(783)	(1,086)	(684)	(396)	(3,679)	(3,640)
Impairments	(124)	–	(11)	–	–	–	(135)	–
Amortization charged/(credited) to other comprehensive income	–	–	(236)	(40)	–	–	(236)	(40)
Acquisitions/divestments/transfers[2]	(3)	–	(5)	–	–	–	(8)	–
Foreign currency translation effects	(1)	6	133	9	–	–	133	15
As of September 30	**3,604**	**3,575**	**14,087**	**12,993**	**372**	**215**	**18,063**	**16,783**

[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 5 million in General Insurance as a consequence of the loss of control over one of the Group's subsidiaries (see note 2).

Impairments include USD 124 million, following a reassessment of the deferred policy acquisition costs in the General Insurance business in Germany.

As of September 30, 2012, December 31, 2011 and September 30, 2011, deferred policy acquisition costs relating to non-controlling interests were USD 1,209 million, USD 977 million and USD 334 million, respectively.

Development of deferred origination costs

Table 7.2

in USD millions	2012	2011
As of January 1	824	866
Origination costs deferred	59	81
Amortization	(116)	(103)
Transfers[1]	5	–
Foreign currency translation effects	20	3
As of September 30	**792**	**847**

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

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8. Goodwill and other intangible assets

Table 8.1

Intangible assets – current period

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	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	14	–	34	–	308	–	355
Divestments and transfers	(1)	–	(134)	–	(1)	–	(137)
Amortization	–	(132)	(145)	–	(278)	(10)	(565)
Amortization charged/(credited) to other comprehensive income	–	(106)	–	–	–	–	(106)
Impairments	–	–	–	–	(28)	–	(28)
Foreign currency translation effects	9	5	(31)	–	2	2	(13)
Net carrying value as of September 30, 2012	**2,081**	**951**	**3,856**	**1,025**	**1,618**	**96**	**9,627**
Plus: accumulated amortization/impairments	129	1,911	542	–	2,870	121	5,573
Gross carrying value as of September 30, 2012	**2,210**	**2,862**	**4,398**	**1,025**	**4,487**	**218**	**15,200**

As of September 30, 2012, intangible assets relating to non-controlling interests were USD 224 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,808 million for distribution agreements and USD 7 million for software.

Additions to goodwill of USD 14 million relate to the acquisition of ZIMB in 2011, resulting from the increase in the anticipated purchase price adjustment and finalization of the purchase accounting (see note 2).

Distribution agreements as of January 1, 2012 include long term strategic arrangements over a 25 year period with Banco Santander S.A. in Latin America. These have significantly expanded the Group's presence in this emerging market and resulted in new distribution agreements totalling USD 1,983 million within both the Global Life and General Insurance operations in Mexico, Brazil, Chile and Argentina. This transaction also resulted in additions to the PVFP amounting to USD 305 million in Mexico, Brazil and Chile (see note 2).

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 an additional USD 34 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 134 million of distribution agreements (see note 2).

Table 8.2

Intangible assets by segment – current period

in USD millions, as of September 30, 2012	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	Total
General Insurance	834	–	725	–	568	78	2,206
Global Life	428	951	3,131	–	368	18	4,895
Farmers	819	–	–	1,025	388	–	2,232
Other Operating Businesses	–	–	–	–	293	–	293
Non-Core Businesses	–	–	–	–	1	–	1
Net carrying value as of September 30, 2012	**2,081**	**951**	**3,856**	**1,025**	**1,618**	**96**	**9,627**

Table 8.3

Intangible assets – prior period

in USD millions	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	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	42	–	48	–	345	–	434
Amortization	–	(75)	(96)	–	(311)	(10)	(492)
Amortization charged to other comprehensive income	–	60	–	–	–	–	60
Impairments	–	–	–	–	(77)	–	(77)
Foreign currency translation effects	(60)	2	1	–	12	(3)	(48)
Net carrying value as of September 30, 2011	**2,086**	**893**	**2,233**	**1,025**	**1,592**	**106**	**7,936**
Plus: accumulated amortization/impairments	123	1,641	415	–	2,540	83	4,802
Gross carrying value as of September 30, 2011	**2,208**	**2,534**	**2,648**	**1,025**	**4,131**	**190**	**12,737**

As of September 30, 2011, intangible assets relating to non-controlling interests were USD 135 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,027 million for distribution agreements and USD 5 million for software.

Additions to goodwill include USD 33 million for the acquisitions of Compagnie Libanaise d'Assurance, USD 2 million relating to the acquisition of PT Zurich Topas Life (formerly PT Mayapada Life) and USD 6 million related to 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.).

Extensions of existing distribution agreements resulted in net additions of USD 29 million in the Global Life operations in Italy and USD 14 million in the General Insurance operations in Turkey.

The decision to decentralize its Direct insurance efforts in the Group's General Insurance operations in Switzerland resulted in an impairment of USD 53 million for software which will no longer be used.

Table 8.4

Intangible assets by segment – prior period

in USD millions, as of December 31, 2011	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other	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**

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9. Restructuring provisions

Restructuring provisions

Table 9

in USD millions	2012	2011
As of January 1	254	155
Provisions made during the period	107	138
Increase of provisions set up in prior years	35	33
Provisions used during the period	(111)	(75)
Provisions reversed during the period	(3)	(3)
Foreign currency translation effects	2	(4)
As of September 30	**283**	**244**

The restructuring programs primarily impacted several European countries within the General Insurance and Global Life operations with estimated costs of USD 107 million for restructuring announced in the current year and USD 35 million for increases of provisions for restructuring which have been initiated in prior years.

10. Income taxes

Income tax expense – current/deferred split

Table 10.1 in USD millions, for the nine months ended September 30	2012	2011
Current	858	939
Deferred	79	(378)
Total income tax expense	**937**	**561**

Income tax expense – policyholder/shareholder attribution

Table 10.2 in USD millions, for the nine months ended September 30	2012	2011
Total income tax expense/(benefit) attributable to policyholders	137	(374)
Total income tax expense attributable to shareholders	800	935
Total income tax expense	**937**	**561**

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 10.3 in USD millions, for the nine months ended September 30	Rate	2012	Rate	2011
Net income before income taxes		3,660		3,816
less: income tax (expense)/benefit attributable to policyholders		(137)		374
Net income before income taxes attributable to shareholders		3,523		4,189
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	775	22.0%	922
Increase/(reduction) in taxes resulting from:				
Tax rate differential in foreign jurisdictions		*108*		159
Tax exempt and lower taxed income		*(36)*		(65)
Non-deductible expenses		*57*		75
Tax losses previously unrecognized or no longer recognized		*6*		17
Prior year adjustments and other		*(110)*		(173)
Actual income tax expense attributable to shareholders	22.7%	800	22.3%	935
plus: income tax expense/(benefit) attributable to policyholders		137		(374)
Actual income tax expense	**25.6%**	**937**	**14.7%**	**561**

Table 10.3 sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss Statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

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11. Senior and subordinated debt

Senior and subordinated debt

Table 11.1

in USD millions, as of		09/30/12	12/31/11
Senior debt			
Zurich Finance (USA), Inc.	4.50% EUR 1 billion notes, due September 2014[2,6,7]	1,302	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]	770	776
	Euro Commercial Paper Notes	400	400
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million notes, due September 2013[5,6,7]	756	764
Zurich Insurance Company Ltd	3.75% CHF 500 million notes, due September 2013[6]	531	531
	2.25% CHF 500 million notes, due July 2017[6]	529	529
	2.875% CHF 250 million notes, due July 2021[6]	262	262
	2.375% CHF 525 million notes, due November 2018[6]	554	553
	1.50% CHF 400 million notes, due June 2019[5,6,7]	429	–
	3.375% EUR 500 million notes, due June 2022[5,6,7]	654	–
Zurich Santander Insurance America S.L.	7.5% EUR 182 million loan, due December 2035	234	236
Other	Various debt instruments payable in more than 1 year	113	141
Senior debt		6,535	6,541
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes[6]	183	184
	7.5% EUR 425 million notes, due July 2039[6]	543	547
	4.25% CHF 700 million perpetual notes[6]	737	735
	4.625% CHF 500 million perpetual notes[6]	525	525
	8.25% USD 500 million perpetual capital notes[6]	494	–
Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes[4,6]	717	690
Zurich Finance (USA), Inc.	5.75% EUR 500 million notes, due October 2023[1,6]	636	641
	4.5% EUR 500 million notes, due June 2025[5,6,7]	690	688
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065	675	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		5,771	5,476
Total senior and subordinated debt		**12,305**	**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 above were in default as of September 30, 2012 or December 31, 2011.

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 6,535 million and USD 6,541 million as of September 30, 2012 and December 31, 2011, respectively. The decrease was primarily due to a redemption of a 4.875% EUR 800 million senior note issued in 2009 by Zurich Finance (USA) which matured in April, 2012, offset by 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 placed into the Swiss domestic market and a 3.375% EUR 500 million senior note placed into the Euromarket.

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 5,771 million and USD 5,476 million as of September 30, 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 into the Asian market, 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 issued by ZFS Finance (USA) Trust IV in May 2007. Zurich exercised its option to redeem these securities early, after the first call date.

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Table 11.2

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.

Table 11.3

Maturity schedule of outstanding debt

	09/30/12		12/31/11	
	Carrying value	**Undiscounted cash flow**	Carrying value	Undiscounted cash flow
< 1 year	1,687	2,267	1,437	2,032
1 to 2 years	1,302	1,859	1,305	1,823
2 to 3 years	135	608	1,324	1,811
3 to 4 years	770	1,232	917	1,319
4 to 5 years	529	913	–	376
5 to 10 years	1,921	3,516	1,345	2,838
> 10 years	5,961	8,094	5,689	7,625
Total	**12,305**	**18,490**	**12,017**	**17,825**

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/redemption dates, see table 11.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 11.3. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of September 30, 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 September 30, 2012 and December 31, 2011. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Table 11.4

Interest expense on debt

in USD millions, for the nine months ended September 30	**2012**	2011
Senior debt	169	199
Subordinated debt	262	242
Total	**431**	**441**

Interest expense on debt

Interest expense on debt amounted to USD 431 million and USD 441 million for the nine months ended September 30, 2012 and 2011, respectively. The lower interest expense on senior debt was mainly due to 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 as well as the maturity of the 4.875% EUR 800 million notes in April 2012. This reduction is partially offset by the 7.5% EUR 182 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 October 31, 2011 the Group refinanced its revolving credit facility of USD 3 billion, which would have expired in September 2012, by a new syndicated revolving credit facility of EUR 2.5 billion maturing in 2018 at the latest. Zurich Insurance Company Ltd and Farmers Group, Inc. are guarantors of the facility and can draw up to EUR 2.3 billion and EUR 200 million, respectively. No borrowings were outstanding under this facility as of September 30, 2012 or December 31, 2011.

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 these four facilities as of September 30, 2012 or December 31, 2011.

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12. Earnings per share

Earnings per share

Table 12

for the nine months ended September 30	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	**2,701**	**146,553,823**	**18.43**	**17.31**
Effect of potentially dilutive shares related to share-based compensation plans		725,338	(0.08)	(0.08)
Diluted earnings per share	**2,701**	**147,279,161**	**18.34**	**17.23**
2011				
Basic earnings per share	**3,206**	**145,723,143**	**22.00**	**19.22**
Effect of potentially dilutive shares related to share-based compensation plans		1,114,568	(0.17)	(0.15)
Diluted earnings per share	**3,206**	**146,837,711**	**21.83**	**19.07**

[1] Excludes the net income attributable to preferred shareholders of USD 4 million for the nine months ended September 30, 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 nine months ended September 30, 2012 and 2011, respectively.

13. Legal proceedings and regulatory investigations

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

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company (Home), plead claims for, inter alia, fraudulent transfer, tortious interference, unfair business practices, alter ego and agency liability relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contend that this 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.

Zurich Insurance Group Ltd (formerly Zurich Financial Services Ltd) was a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium (now Scor Holding (Switzerland) AG). On July 25, 2008, Zurich Financial Services Ltd and the class-action plaintiffs entered into an amended stipulation of settlement that called for a payment of USD 28 million to settle the case in two parts on behalf of all persons and entities who had purchased Converium securities between January 7, 2002 and September 2, 2004: one settlement in the U.S. court, covering all U.S. persons and entities, and all other persons who had purchased Converium securities on U.S. markets, and another settlement in the Amsterdam Court of Appeal, in the Netherlands, covering all non-U.S. persons and entities who had purchased Converium securities on non-U.S. markets. The U.S. and Dutch settlements were independent of each other. The U.S. court approved the U.S. settlement on December 12, 2008, and the ruling became final in June 2009. On January 17, 2012, the Amsterdam Court of Appeal approved the non-U.S. settlement and the time to appeal has expired. The deadline to opt out of the non-U.S. settlement was July 31, 2012, and a number of opt-out requests have been received. To date, none of the opt-outs has filed suit against Zurich Insurance Group Ltd. Unless there are any major unforeseen developments, this case will no longer be reported.

Zurich Insurance Group Ltd (formerly Zurich Financial Services Ltd) was a defendant in a putative class action in California state court captioned Benjamin Fogel v. Farmers Group, Inc. (Fogel Case). The case, originally filed in August 2003, was brought on behalf of a putative class of all policyholders of the Farmers Exchanges from 1999 to the present. The plaintiff alleged that Farmers Group, Inc. and certain of its affiliates (Farmers), which acted as the attorneys-in-fact for policyholders of the Farmers Exchanges, had collected excessive and unreasonable management fees. The complaint sought, amongst other things, disgorgement, as well as damages and injunctive relief. In February 2005, the trial court granted Farmers' motion for summary judgment, and the plaintiff appealed. In 2008, a California appellate court reversed the trial court's ruling and reinstated the litigation. On September 9, 2009, the plaintiff filed a motion seeking to certify a nationwide class of all policyholders of the Farmers Exchanges since August 1, 1999. On October 7, 2010, the Group announced that it had agreed in principle to a proposed nationwide settlement of the Fogel Case. Under the terms of the proposed settlement, a sum of USD 455 million was made available to approximately 12.5 million policyholders who may qualify for a distribution under the settlement, with any residual amount going to the Farmers Exchanges. The Group would also pay attorneys' fees to class action counsel of up to USD 90 million, as well as the costs of administering the settlement. On December 12, 2010, the parties executed the settlement agreement. On January 12, 2011, the parties filed a motion seeking preliminary court approval of the proposed settlement. On February 3, 2011, the court granted a motion to intervene by a class member who objected to certain aspects of the proposed settlement. The hearing on the motion for preliminary approval was held on March 2, 2011, and the court granted the motion. Notices were mailed and published to class members, and a number of objections and opt-out requests were submitted. On October 31, 2011, the court granted a motion by the State of Montana to intervene so it could object to certain aspects of the proposed settlement. On December 21, 2011, the court granted final approval of the settlement, and it reduced the total award of attorneys' fees, expenses, and incentive awards to approximately USD 74 million (instead of USD 90 million). Five notices of appeal were filed,

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including one by intervenor State of Montana, and the appeal period expired. All appeals were subsequently abandoned in September 2012. The settlement is now final, and the Fogel case has ended.

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.

14. 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 14 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 unaudited Consolidated financial statements

Table 14

in USD millions		
for the nine months ended September 30	**2012**	2011
Net earned premiums and policy fees	10	21
Net investment result on Group investments	11	9
Insurance benefits and losses, net of reinsurance	(7)	(3)
Underwriting and policy acquisition costs, net of reinsurance	–	(1)
Administrative and other operating expense	(2)	(2)
as of	**09/30/12**	12/31/11
Other loans	18	21
Deposits made under assumed reinsurance contracts	4	5
Receivables and other assets	3	7
Reserves for insurance contracts	(12)	(11)
Other liabilities	–	(3)

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15. 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. In addition, certain alternative investment positions not allocated to business operating segments are carried in this segment.

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

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

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Business operating profit by business segment

Table 15.1

in USD millions, for the nine months ended September 30	General Insurance		Global Life	
	2012	2011	**2012**	2011
Revenues				
Direct written premiums[1]	25,611	25,453	7,605	6,862
Assumed written premiums	1,698	1,594	66	68
Gross Written Premiums	27,309	27,047	7,671	6,930
Policy fees	–	–	1,803	1,662
Gross written premiums and policy fees	27,309	27,047	9,474	8,592
Less premiums ceded to reinsurers	(4,486)	(4,347)	(533)	(503)
Net written premiums and policy fees	22,823	22,700	8,941	8,088
Net change in reserves for unearned premiums	(1,284)	(992)	(261)	(23)
Net earned premiums and policy fees	21,539	21,708	8,680	8,066
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	1,973	2,136	3,521	3,462
Net investment income on Group investments	1,922	2,131	3,001	3,125
Net capital gains/(losses) and impairments on Group investments	51	5	519	337
Net investment result on unit-linked investments	–	–	7,421	(7,273)
Other income	863	622	716	745
Total BOP revenues	24,375	24,466	20,338	5,000
of which: inter-segment revenues	*(379)*	*(374)*	*(255)*	*(264)*
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	14,932	15,704	6,710	7,007
Losses and loss adjustment expenses, net	14,933	15,696	(4)	50
Life insurance death and other benefits, net[1]	(1)	8	6,714	6,957
Policyholder dividends and participation in profits, net	3	6	8,109	(6,436)
Income tax expense/(benefit) attributable to policyholders	–	–	137	(374)
Underwriting and policy acquisition costs, net	4,340	4,090	1,949	1,570
Administrative and other operating expense (excl. depreciation/amortization)	2,990	2,731	1,818	1,713
Interest credited to policyholders and other interest	13	18	291	308
Restructuring provisions and other items not included in BOP	(70)	(252)	(67)	(97)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	22,209	22,297	18,947	3,692
Business operating profit (before interest, depreciation and amortization)	**2,166**	**2,169**	**1,390**	**1,308**
Depreciation and impairments of property and equipment	70	71	22	23
Amortization and impairments of intangible assets	143	209	326	221
Interest expense on debt	110	157	16	37
Business operating profit before non-controlling interests	1,843	1,732	1,025	1,027
Non-controlling interests	31	–	67	22
Business operating profit	**1,812**	**1,732**	**959**	**1,005**
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets[2]	213	368	105	176

[1] The Global Life segment includes approximately USD 456 million and USD 671 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the nine months ended September 30, 2012 and 2011, respectively (see note 3 of the Consolidated financial statements 2011).
[2] As of September 30, 2012 and December 31, 2011, respectively.

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
–	–	–	–	78	97	–	–	33,294	32,412
3,382	2,261	98	102	86	116	(148)	(163)	5,182	3,979
3,382	2,261	98	102	164	213	(148)	(163)	38,475	36,391
–	–	–	–	185	214	–	–	1,988	1,876
3,382	2,261	98	102	349	427	(148)	(163)	40,463	38,267
–	–	(40)	(43)	(14)	(706)	148	163	(4,926)	(5,436)
3,382	2,261	57	60	335	(279)	–	–	35,537	32,830
(70)	(29)	2	3	1	1	–	–	(1,611)	(1,039)
3,312	2,232	60	63	336	(277)	–	–	33,926	31,791
2,134	2,071	–	–	–	–	–	–	2,134	2,071
95	102	324	400	315	928	(507)	(636)	5,721	6,393
95	102	324	400	263	332	(507)	(636)	5,099	5,454
–	–	–	–	52	597	–	–	622	939
–	–	–	–	582	(132)	–	–	8,004	(7,406)
63	46	655	656	73	80	(1,096)	(1,067)	1,274	1,082
5,604	4,451	1,039	1,119	1,307	599	(1,603)	(1,703)	51,059	33,932
(53)	*(51)*	*(873)*	*(970)*	*(42)*	*(45)*	*1,603*	*1,703*	–	–
2,446	1,587	52	57	298	325	–	–	24,439	24,681
2,446	1,587	–	3	3	(619)	(2)	10	17,377	16,728
–	–	52	54	295	944	2	(10)	7,062	7,954
–	–	–	–	688	(47)	–	–	8,799	(6,477)
–	–	–	–	–	–	–	–	137	(374)
1,037	674	–	–	6	7	(3)	(4)	7,329	6,338
997	973	796	742	119	175	(1,074)	(1,047)	5,646	5,287
–	–	5	6	39	44	(2)	(6)	346	370
11	(4)	(4)	21	(1)	–	–	–	(131)	(330)
4,491	3,231	849	827	1,148	505	(1,079)	(1,057)	46,565	29,495
1,114	**1,220**	**190**	**292**	**158**	**94**	**(523)**	**(646)**	**4,494**	**4,437**
41	40	12	9	1	4	–	–	146	147
73	84	51	54	–	1	–	–	594	569
2	–	789	816	38	76	(523)	(646)	431	441
998	1,096	(662)	(588)	119	13	–	–	3,323	3,280
–	–	(17)	–	1	1	–	–	82	22
998	**1,096**	**(645)**	**(588)**	**118**	**13**	**–**	**–**	**3,242**	**3,258**
96	171	59	124	1	–	–	–	473	840

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Reconciliation of BOP to net income after income taxes

Table 15.2

in USD millions, for the nine months ended September 30	General Insurance		Global Life	
	2012	2011	**2012**	2011
Business operating profit	**1,812**	**1,732**	**959**	**1,005**
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	277	482	186	422
Net gain/(loss) on divestments of businesses	(38)	–	3	17
Restructuring provisions	(73)	(134)	(57)	(31)
Net income/(expense) on intercompany loans[1]	(18)	(37)	(2)	(11)
Other adjustments	21	(81)[2]	(8)	(54)[3]
Add back:				
Business operating profit attributable to non-controlling interests	31	–	67	22
Net income before shareholders' taxes	**2,013**	**1,962**	**1,147**	**1,369**
Income tax expense/(benefit) attributable to policyholders	–	–	137	(374)
Net income before income taxes	**2,013**	**1,962**	**1,284**	**995**
Income tax expense				
attributable to policyholders				
attributable to shareholders				
Net income after taxes				
attributable to non-controlling interests				
attributable to shareholders				

[1] The impact at Group level relates to foreign currency translation differences.
[2] Includes USD 54 million of software impairments relating to a restructuring program impacting several European countries.
[3] Includes USD 84 million relating to a voluntary settlement of an insurance liability in Italy.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	998	**1,096**	**(645)**	**(588)**	**118**	**13**	**3,242**	**3,258**
	19	(4)	(139)	294	23	28	366	1,223
	–	–	(1)	–	–	–	(35)	17
	–	(3)	(7)	–	(1)	–	(138)	(168)
	–	–	20	52	–	–	–	4
	11	(1)	(16)	(31)	–	–	7	(166)
	–	–	(17)	–	1	1	82	22
	1,028	**1,088**	**(806)**	**(272)**	**141**	**42**	**3,523**	**4,189**
	–	–	–	–	–	–	137	(374)
	1,028	**1,088**	**(806)**	**(272)**	**141**	**42**	**3,660**	**3,816**
							(937)	(561)
							(137)	374
							(800)	(935)
							2,723	**3,254**
							22	45
							2,701	3,210

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Assets and liabilities by business segment

Table 15.3

in USD millions, as of	General Insurance		Global Life	
	09/30/12	12/31/11	**09/30/12**	12/31/11
Assets				
Total Group Investments	88,518	84,514	109,631	104,643
Cash and cash equivalents	9,367	8,267	3,380	3,342
Equity securities	5,719	5,413	4,969	5,392
Debt securities	65,855	63,097	74,925	69,502
Real estate held for investment	2,775	2,911	5,079	5,130
Mortgage loans	1,432	1,472	7,955	8,177
Other loans	3,364	3,350	13,257	13,035
Investments in associates and joint ventures	6	6	65	65
Investments for unit-linked contracts	–	–	110,814	102,768
Total investments	88,518	84,514	220,445	207,411
Reinsurers' share of reserves for insurance contracts	13,829	13,660	1,972	2,079
Deposits made under assumed reinsurance contracts	37	71	30	19
Deferred policy acquisition costs	3,604	3,567	14,087	13,584
Deferred origination costs	–	–	792	824
Goodwill	834	827	428	413
Other intangible assets	1,372	1,484	4,468	4,856
Other assets[1]	15,555	14,934	7,246	7,167
Total assets (after cons. of investments in subsidiaries)	**123,750**	**119,057**	**249,467**	**236,354**
Liabilities				
Liabilities for investment contracts	–	–	55,638	50,958
Reserves for insurance contracts, gross	82,817	80,844	154,236	148,076
Reserves for losses and loss adjustment expenses, gross	65,746	64,127	–	39
Reserves for unearned premiums, gross	16,927	15,356	226	970
Future life policyholders' benefits, gross	112	92	76,894	75,432
Policyholders' contract deposits and other funds, gross	32	1,269	16,307	14,300
Reserves for unit-linked contracts, gross	–	–	60,808	57,337
Senior debt	5,775	5,354	368	466
Subordinated debt	613	1,038	334	333
Other liabilities[2]	13,311	13,327	19,119	18,502
Total liabilities	**102,515**	**100,563**	**229,694**	**218,335**
Equity				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				

[1] As of September 30, 2012 the Global Life and Farmers segments include assets held for sale amounting to USD 24 million and USD 34 million, respectively, relating to land and buildings formerly classified as real estate held for investment. As of December 31, 2011, the General Insurance and Global Life segments include 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 2).
[2] As of December 31, 2011, the General Insurance and Global Life segments include 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 2).

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
09/30/12	12/31/11	**09/30/12**	12/31/11	**09/30/12**	12/31/11	**09/30/12**	12/31/11	**09/30/12**	12/31/11
3,801	4,267	16,926	19,099	12,129	13,119	(26,574)	(27,965)	204,431	197,677
379	580	7,402	8,608	2,160	2,637	(14,664)	(14,552)	8,025	8,882
97	93	1,451	1,533	286	219	–	–	12,521	12,650
1,355	1,295	4,802	4,563	6,694	7,016	(957)	(962)	152,674	144,511
99	132	42	42	257	258	–	–	8,252	8,472
–	–	–	–	1,204	1,409	–	–	10,592	11,058
1,871	2,168	3,221	4,347	1,439	1,495	(10,954)	(12,451)	12,198	11,944
–	–	9	6	89	84	–	–	169	161
–	–	–	–	11,951	11,508	–	–	122,765	114,276
3,801	4,267	16,926	19,099	24,080	24,626	(26,574)	(27,965)	327,196	311,953
–	–	–	–	3,888	4,509	(196)	(656)	19,493	19,592
2,307	2,141	–	–	191	508	–	(28)	2,565	2,711
371	352	–	–	1	1	–	–	18,063	17,505
–	–	–	–	–	–	–	–	792	824
819	819	–	–	–	–	–	–	2,081	2,060
1,413	1,434	293	286	1	1	–	–	7,546	8,062
1,166	1,009	1,708	1,906	1,473	1,261	(2,429)	(1,927)	24,718	24,350
9,878	**10,023**	**18,927**	**21,291**	**29,633**	**30,906**	**(29,200)**	**(30,575)**	**402,455**	**387,056**
–	–	–	–	–	–	–	–	55,638	50,958
2,960	2,728	45	39	21,581	21,972	(196)	(637)	261,442	253,022
1,571	1,410	27	28	2,081	2,559	(156)	(586)	69,270	67,577
1,388	1,318	2	4	21	22	(3)	(9)	18,561	17,661
–	–	16	6	5,084	5,097	(37)	(42)	82,069	80,584
–	–	–	–	2,444	2,787	–	–	18,783	18,356
–	–	–	–	11,950	11,507	–	–	72,759	68,844
223	125	22,385	22,826	2,400	2,134	(24,615)	(24,365)	6,535	6,541
–	–	5,698	5,432	23	23	(897)	(1,350)	5,771	5,476
1,285	1,635	2,829	3,221	3,544	4,428	(3,491)	(4,224)	36,596	36,888
4,468	**4,488**	**30,957**	**31,517**	**27,547**	**28,557**	**(29,200)**	**(30,575)**	**365,981**	**352,885**
								34,050	31,680
								2,423	2,491
								36,474	34,171
								402,455	**387,056**

Consolidated financial statements *continued*

General Insurance – Customer segment overview

Table 15.4

in USD millions, for the nine months ended September 30	Global Corporate		North America Commercial	
	2012	2011	**2012**	2011
Gross written premiums and policy fees	6,659	6,528	7,560	7,278
Net earned premiums and policy fees	4,039	4,024	5,605	5,569
Insurance benefits and losses, net	2,838	3,369	3,809	3,729
Policyholder dividends and participation in profits, net	–	(1)	3	6
Total net technical expenses	823	787	1,596	1,626
Net underwriting result	378	(130)	197	208
Net investment income	436	451	646	750
Net capital gains/(losses) and impairments on investments	12	1	32	4
Net non-technical result (excl. items not included in BOP)	(94)	(89)	(155)	(195)
Business operating profit before non-controlling interests	732	233	720	767
Non-controlling interests	–	–	–	–
Business operating profit	732	232	720	767
Ratios, as % of net earned premiums and policy fees				
Loss ratio	70.3%	83.7%	68.0%	67.0%
Expense ratio	20.4%	19.5%	28.5%	29.3%
Combined ratio	90.6%	103.2%	96.5%	96.3%

Europe		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
9,424	10,366	4,039	3,358	258	305	(630)	(787)	27,309	27,047
8,810	9,585	3,079	2,494	6	36	–	–	21,539	21,708
6,437	6,859	1,862	1,837	(14)	(89)	–	–	14,932	15,704
–	–	–	–	–	–	–	–	3	6
2,527	2,446	1,131	856	7	22	(4)	(2)	6,080	5,734
(154)	280	85	(199)	14	103	4	2	524	263
597	711	196	177	48	44	(1)	(2)	1,922	2,131
–	–	7	–	–	–	–	–	51	5
(276)	(267)	(110)	(83)	(16)	(34)	(3)	(1)	(654)	(668)
168	724	177	(105)	46	113	–	–	1,843	1,732
(5)	(3)	37	2	–	–	–	–	31	–
173	727	140	(108)	46	113	–	–	1,812	1,732
73.1%	71.6%	60.5%	73.7%	nm	nm	n/a	n/a	69.3%	72.3%
28.7%	25.5%	36.7%	34.3%	nm	nm	n/a	n/a	28.2%	26.4%
101.7%	97.1%	97.2%	108.0%	nm	nm	n/a	n/a	97.6%	98.8%

Consolidated financial statements *continued*

Table 15.5

General Insurance – Revenues by region

in USD millions, for the nine months ended September 30	Gross written premiums and policy fees from external customers		of which Global Corporate	
	2012	2011	**2012**	2011
Middle East	151	85	99	60
Africa				
South Africa	360	437		
Morocco	99	101		
Subtotal Africa	459	538	17	–
Latin America				
Argentina	280	199		
Brazil	661	424		
Chile	285	204		
Mexico	400	227		
Venezuela	175	195		
Rest of Latin America	22	25		
Subtotal Latin America	1,823	1,274	–	–
North America				
United States	9,297	8,706		
Rest of North America	705	716		
Subtotal North America	10,003	9,422	2,567	2,289
Asia-Pacific				
Australia	875	856		
Hong Kong	158	136		
Japan	599	542		
Taiwan	99	97		
Rest of Asia-Pacific	308	183		
Subtotal Asia-Pacific	2,039	1,813	432	451
Europe				
United Kingdom	2,891	3,103		
Germany	2,611	2,833		
Switzerland	2,831	3,044		
Italy	1,294	1,494		
Spain	1,086	1,296		
Rest of Europe	2,117	2,134		
Subtotal Europe	12,830	13,905	3,325	3,453
Total	**27,305**	**27,037**	**6,440**	**6,254**

Table 15.6

General Insurance – Non-current assets by region

in USD millions, as of	Property/equipment and intangible assets	
	09/30/12	12/31/11
Middle East	38	35
Africa		
South Africa	15	19
Morocco	30	31
Subtotal Africa	45	50
Latin America		
Argentina	18	15
Brazil	214	207
Chile	35	32
Mexico	278	261
Venezuela	13	13
Rest of Latin America	5	5
Subtotal Latin America	563	534
North America		
United States	231	247
Rest of North America	30	6
Subtotal North America	261	254
Asia-Pacific		
Australia	76	79
Hong Kong	13	6
Japan	31	33
Taiwan	19	18
Rest of Asia-Pacific	5	4
Subtotal Asia-Pacific	144	140
Europe		
United Kingdom	213	199
Germany	218	210
Switzerland	579	589
Italy	38	49
Spain	343	501
Rest of Europe	622	609
Subtotal Europe	2,014	2,158
Total	**3,064**	**3,170**

Consolidated financial statements *continued*

Global Life – Overview

Table 15.7

in USD millions, for the nine months ended September 30

	North America		Latin America	
	2012	2011	**2012**	2011
Revenues				
Life insurance deposits	182	244	1,774	192
Gross written premiums[1]	390	376	1,901	477
Policy fees	223	212	54	19
Gross written premiums and policy fees	613	588	1,955	497
Net earned premiums and policy fees	456	428	1,691	482
Net investment income on Group investments	236	249	180	99
Net capital gains/(losses) and impairments on Group investments	–	–	152	–
Net investment result on Group investments	236	250	332	99
Net investment income on unit-linked investments	(26)	(20)	7	6
Net capital gains/(losses) and impairments on unit-linked investments	55	(52)	693	(29)
Net investment result on unit-linked investments	29	(72)	700	(23)
Other income	69	74	35	11
Total BOP revenues	790	680	2,758	569
Benefits, losses and expenses				
Insurance benefits and losses, net[1]	250	242	822	349
Policyholder dividends and participation in profits, net	46	(55)	712	(21)
Income tax expense/(benefit) attributable to policyholders	–	–	–	–
Underwriting and policy acquisition costs, net	71	91	621	89
Administrative and other operating expense (excl. depreciation/amortization)	107	97	276	103
Interest credited to policyholders and other interest	109	113	17	4
Restructuring provisions and other items not included in BOP	–	1	7	–
Total BOP benefits, losses and expenses	584	488	2,454	525
Business operating profit (before interest, depreciation and amortization)	**206**	**192**	**305**	**44**
Depreciation and impairments of property and equipment	1	1	2	1
Amortization and impairments of intangible assets	5	16	142	1
Interest expense on debt	3	2	(6)	–
Business operating profit before non-controlling interests	198	174	166	41
Non-controlling interests	–	–	67	2
Business operating profit	**198**	**174**	**99**	**40**

[1] Europe includes approximately USD 456 million and USD 671 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the nine months ended September 30, 2012 and 2011, respectively (see note 3 of the Consolidated financial statements 2011).

Europe		Asia-Pacific and Middle East		Other		Eliminations		Total	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
7,928	8,603	1,275	1,433	507	285	–	–	11,666	10,758
4,777	5,665	534	352	104	88	(36)	(29)	7,671	6,930
1,401	1,329	121	99	4	3	–	–	1,803	1,662
6,178	6,994	656	450	108	91	(36)	(29)	9,474	8,592
5,873	6,696	559	375	101	85	–	–	8,680	8,066
2,429	2,710	148	58	8	9	(1)	–	3,001	3,125
360	328	7	9	–	–	–	–	519	337
2,789	3,038	155	67	8	9	(1)	–	3,521	3,462
1,479	1,504	60	76	26	22	–	–	1,546	1,588
4,589	(7,580)	463	(1,075)	75	(126)	–	–	5,876	(8,861)
6,068	(6,075)	523	(999)	102	(104)	–	–	7,421	(7,273)
243	301	140	148	234	218	(5)	(7)	716	745
14,974	3,959	1,376	(409)	445	208	(6)	(7)	20,338	5,000
5,368	6,291	211	78	59	48	–	–	6,710	7,007
6,598	(5,297)	646	(970)	108	(92)	–	–	8,109	(6,436)
127	(383)	10	10	–	–	–	–	137	(374)
1,004	1,195	149	121	104	76	–	(1)	1,949	1,570
1,031	1,125	227	235	182	158	(6)	(5)	1,818	1,713
146	170	20	21	–	–	–	–	291	308
(82)	(97)	8	(1)	–	–	–	–	(67)	(97)
14,191	3,003	1,271	(507)	453	189	(6)	(7)	18,947	3,692
783	**956**	**105**	**97**	**(9)**	**18**	**–**	**–**	**1,390**	**1,308**
15	18	4	3	–	–	–	–	22	23
176	199	(1)	2	5	3	–	–	326	221
17	35	–	–	1	1	–	–	16	37
575	705	101	92	(15)	14	–	–	1,025	1,027
–	21	(1)	(1)	–	–	–	–	67	22
575	**684**	**102**	**93**	**(15)**	**14**	**–**	**–**	**959**	**1,005**

Consolidated financial statements *continued*

Table 15.8

Global Life – Revenues by region

in USD millions, for the nine months ended September 30	Gross written premiums and policy fees from external customers		Life insurance deposits	
	2012	2011	**2012**	2011
North America				
United States	613	588	182	244
Subtotal North America	613	588	182	244
Latin America				
Chile	569	270	7	7
Argentina	84	28	34	33
Bolivia	–	9	–	9
Mexico	204	47	–	–
Venezuela	47	39	–	–
Brazil	1,048	104	1,733	143
Uruguay	3	–	–	–
Subtotal Latin America	1,955	497	1,774	192
Europe				
United Kingdom	1,309	1,107	4,178	4,066
Germany	2,075	2,344	1,438	1,489
Switzerland	1,348	1,536	86	63
Ireland[2]	363	442	1,713	1,436
Spain	679	1,003	141	998
Italy	238	320	315	476
Portugal	23	24	22	35
Austria	103	177	36	41
Subtotal Europe	6,138	6,951	7,928	8,603
Asia-Pacific and Middle East				
Hong Kong	62	67	100	113
Taiwan	–	–	1	–
Indonesia	1	1	1	–
Australia	242	231	51	63
Japan	75	75	17	18
Malaysia	184	–	–	–
Zurich International Life[1]	92	76	1,106	1,239
Subtotal Asia-Pacific and Middle East	656	449	1,275	1,433
Other				
Luxembourg[2]	4	3	507	285
International Group Risk Solutions[3]	63	56	–	–
Subtotal Other	67	59	507	285
Total	**9,429**	**8,544**	**11,666**	**10,758**

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

Table 15.9

Global Life – Non-current assets by region

in USD millions, as of	Property/equipment and intangible assets	
	09/30/12	12/31/11
North America		
United States	164	174
Subtotal North America	164	174
Latin America		
Chile	500	490
Argentina	104	113
Mexico	276	277
Brazil	1,001	1,156
Subtotal Latin America	1,882	2,036
Europe		
United Kingdom	424	415
Germany	751	816
Switzerland	70	60
Ireland	3	3
Spain	1,737	1,833
Italy	154	244
Austria	5	6
Subtotal Europe	3,145	3,378
Asia-Pacific and Middle East		
Hong Kong	8	7
Indonesia	3	3
Japan	2	3
Singapore	1	–
Malaysia	126	109
Zurich International Life	18	5
Subtotal Asia-Pacific and Middle East	159	127
Other		
Luxembourg[1]	4	4
Subtotal Other	4	4
Total	**5,353**	**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 15.10

in USD millions, for the nine months ended September 30		Total
	2012	2011
Farmers Management Services		
Management fees and other related revenues	2,134	2,071
Management and other related expenses	1,103	1,077
Gross management result	1,031	995
Other net income (excl. items not included in BOP)	35	25
Business operating profit before non-controlling interest	1,066	1,020
Business operating profit	1,066	1,020
Farmers Re		
Gross written premiums and policy fees	3,382	2,261
Net earned premiums and policy fees	3,312	2,232
Insurance benefits and losses, net	(2,446)	(1,587)
Total net technical expenses	(1,037)	(674)
Net underwriting result	(171)	(30)
Net non-technical result (excl. items not relevant for BOP)	48	43
Net investment result income	55	62
Business operating profit before non-controlling interests	(68)	76
Business operating profit	(68)	76
Farmers business operating profit	**998**	**1,096**

Ratios, as % of net earned premiums and policy fees		
Farmers Re Combined ratio	105.2%	101.3%

Supplementary information		
Property, equipment and intangible assets[1]	2,421	2,454

[1] As of September 30, 2012 and December 31, 2011, respectively.

Consolidated financial statements *continued*

Other Operating Businesses – Overview

Table 15.11

in USD millions, for the nine months ended September 30	Holding and Financing[1]	
	2012	2011
Gross written premiums and policy fees	94	99
Net earned premiums and policy fees	54	56
Net investment income	294	373
Other income	50	68
Total BOP revenues	398	497
Insurance benefits and losses, incl. PH dividends, net	52	54
Administrative and other operating expense (excl. depreciation/amortization)	93	42
Other expenses (excl. items not included in BOP)	1	36
Depreciation, amortization and impairments of property, equipment and intangible assets	8	–
Interest expense on debt	792	821
Business operating profit before non-controlling interests	(547)	(457)
Non-controlling interests	(17)	–
Business operating profit	**(531)**	**(457)**

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

	Headquarters		Eliminations		Total	
	2012	2011	**2012**	2011	**2012**	2011
	4	3	–	–	98	102
	6	6	–	–	60	63
	34	33	(4)	(6)	324	400
	714	712	(109)	(124)	655	656
	754	752	(113)	(129)	1,039	1,119
	–	3	–	–	52	57
	811	823	(109)	(123)	796	742
	–	(8)	–	–	1	28
	56	63	–	–	63	63
	1	1	(5)	(6)	789	816
	(115)	(131)	–	–	(662)	(588)
	–	–	–	–	(17)	–
	(115)	**(131)**	**–**	**–**	**(645)**	**(588)**

Consolidated financial statements *continued*

Non-Core Businesses – Overview

Table 15.12

in USD millions, for the nine months ended September 30	Total	
	2012	2011
Gross written premiums and policy fees	349	427
Net earned premiums and policy fees	336	(277)
Insurance benefits and losses, net	298	325
Policyholder dividends and participation in profits, net	688	(47)
Total net technical expenses	62	66
Net underwriting result	(712)	(621)
Net investment income	65	88
Net capital gains/(losses) and impairments on investments	832	708
Net non-technical result (excl. items not included in BOP)	(66)	(161)
Business operating profit before non-controlling interests	**119**	**13**
Non-controlling interests	1	1
Business operating profit	**118**	**13**

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