

Consolidated financial statements 2010

Zurich Financial Services Group
Annual Report 2010

Financial information

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Consolidated financial statements

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Consolidated income statements

in USD millions, for the years ended December 31			
	Notes	2010	Restated 2009
Revenues			
Gross written premiums and policy fees		49,965	53,817
Less premiums ceded to reinsurers		(5,683)	(5,844)
Net written premiums and policy fees		44,282	47,973
Net change in reserves for unearned premiums	11	1,227	(746)
Net earned premiums and policy fees		45,509	47,227
Farmers management fees and other related revenues	14	2,778	2,690
Net investment result on Group investments	6	7,990	5,929
Net investment income on Group investments		7,092	7,505
Net capital gains/(losses) and impairments on Group investments		898	(1,576)
Net investment result on unit-linked investments	6	10,093	12,475
Net gain/(loss) on divestments of businesses	5	38	(5)
Other income		1,442	1,802
Total revenues		67,850	70,118
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	11	38,591	38,304
Less ceded insurance benefits and losses	11	(4,106)	(3,201)
Insurance benefits and losses, net of reinsurance	11	34,484	35,103
Policyholder dividends and participation in profits, net of reinsurance	11	10,801	12,859
Underwriting and policy acquisition costs, net of reinsurance	11	8,636	8,403
Administrative and other operating expense	13	7,976	7,098
Interest expense on debt	22	556	555
Interest credited to policyholders and other interest		529	563
Total benefits, losses and expenses		62,982	64,582
Net income before income taxes		4,868	5,537
Income tax expense	21	(1,355)	(1,553)
attributable to policyholders	21	(462)	(387)
attributable to shareholders	21	(893)	(1,167)
Net income after taxes		3,513	3,983
attributable to non-controlling interests		79	21
attributable to shareholders		3,434	3,963
in USD			
Basic earnings per share	23	23.63	27.78
Diluted earnings per share	23	23.44	27.58
in CHF			
Basic earnings per share	23	24.57	30.09
Diluted earnings per share	23	24.38	29.88

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

Consolidated financial statements *continued*

Consolidated statements of comprehensive income

in USD millions, for the year ended December 31

	Net income attributable to shareholders	Net unrealized gains/(losses) on available-for-sale investments
2009, as restated		
Comprehensive income for the period	3,963	3,411
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,548
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		1,014
Deferred income tax (before foreign currency translation effects)		(1,144)
Foreign currency translation effects		(7)
2010		
Comprehensive income for the period	3,434	2,081
Details of movements during the period		
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		3,069
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(589)
Deferred income tax (before foreign currency translation effects)		(520)
Foreign currency translation effects		121

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

	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	7	944	(1)	171	4,532	8,495	91	8,586
	119	944	(2)	288	4,898			
	(96)	–	–	–	918			
	(16)	–	–	(63)	(1,223)			
	–	–	–	(53)	(61)			
	65	(729)	28	(162)	1,283	4,717	(13)	4,704
	(45)	(709)	41	(192)	2,164			
	134	(20)	–	–	(475)			
	(6)	–	(13)	51	(488)			
	(18)	–	–	(22)	81			

Consolidated financial statements *continued*

Consolidated balance sheets

Assets	in USD millions, as of	Notes	12/31/10	Restated 12/31/09	Restated 01/01/09
Investments					
Total Group investments			195,898	195,658	179,138
Cash and cash equivalents			8,558	11,041	10,726
Equity securities			13,729	12,581	14,571
Debt securities			140,254	136,723	118,493
Real estate held for investment			8,274	7,789	7,524
Mortgage loans			11,851	12,736	12,820
Other loans			13,043	14,556	14,784
Equity method accounted investments			188	232	220
Investments for unit-linked contracts			107,947	99,167	78,203
Total investments		6	303,845	294,825	257,341
Reinsurers' share of reserves for insurance contracts		8	18,809	18,751	18,778
Deposits made under assumed reinsurance contracts			2,832	3,861	2,397
Deferred policy acquisition costs		12	16,326	16,181	14,323
Deferred origination costs		12	866	856	770
Accrued investment income			2,749	2,744	2,429
Receivables		15	13,935	13,782	13,662
Other assets		19	3,741	3,327	4,095
Mortgage loans given as collateral		16	743	1,102	1,233
Deferred tax assets		21	2,067	2,421	3,165
Assets held for sale ¹			–	67	–
Property and equipment		17	1,689	1,942	1,889
Goodwill		18	2,104	2,297	1,677
Other intangible assets		18	5,954	7,044	6,633
Total assets			375,661	369,202	328,391

¹ Includes land and buildings formerly classified as held for own use.

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

Liabilities and equity	in USD millions, as of			
	Notes	12/31/10	Restated 12/31/09	Restated 01/01/09
Liabilities				
Reserve for premium refunds		518	649	620
Liabilities for investment contracts	9	50,667	46,124	35,979
Deposits received under ceded reinsurance contracts		1,362	1,558	1,619
Deferred front-end fees		5,626	5,543	4,695
Reserves for insurance contracts	8	242,646	242,094	224,078
Obligations to repurchase securities		3,330	3,976	3,608
Accrued liabilities		3,011	2,839	2,820
Other liabilities	20	18,396	18,299	17,391
Collateralized loans	16	743	1,102	1,233
Deferred tax liabilities	21	4,585	4,445	3,273
Debt related to capital markets	22	400	25	2,079
Senior and subordinated debt	22	11,057	11,444	8,455
Total liabilities		342,340	338,098	305,850
Equity				
Share capital	23	10	10	10
Additional paid-in capital	23	11,630	11,400	10,131
Net unrealized gains/(losses) on available-for-sale investments		2,468	387	(3,024)
Cash flow hedges		56	(9)	(16)
Cumulative foreign currency translation adjustment		(1,125)	(396)	(1,341)
Revaluation reserve		126	98	99
Retained earnings		18,344	17,253	14,441
Common shareholders' equity		31,509	28,743	20,301
Preferred securities	23	475	561	561
Shareholders' equity		31,984	29,304	20,862
Non-controlling interests		1,337	1,800	1,678
Total equity		33,321	31,104	22,540
Total liabilities and equity		375,661	369,202	328,391

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

Consolidated financial statements *continued*

Consolidated statements of cash flows

in USD millions, for the year ended December 31	2010	Restated 2009
Cash flows from operating activities		
Net income attributable to shareholders	3,434	3,963
Adjustments for:		
Net (gain)/loss on divestments of businesses	(38)	5
Income from equity method accounted investments	(17)	(4)
Depreciation, amortization and impairments of fixed and intangible assets	1,086	892
Other non-cash items	789	554
Underwriting activities:	12,999	11,944
<i>Reserves for insurance contracts, gross</i>	5,785	7,664
<i>Reinsurers' share of reserves for insurance contracts</i>	(13)	625
<i>Liabilities for investment contracts</i>	7,058	6,674
<i>Deferred policy acquisition costs</i>	(622)	(1,455)
<i>Deferred origination costs</i>	(23)	(16)
<i>Deposits made under assumed reinsurance contracts</i>	1,028	(1,453)
<i>Deposits received under ceded reinsurance contracts</i>	(214)	(97)
Investments:	(16,490)	(18,349)
<i>Net capital (gains)/losses on total investments and impairments</i>	(9,430)	(9,261)
<i>Net change in trading securities and derivatives</i>	7	214
<i>Net change in money market investments</i>	411	(142)
<i>Sales and maturities</i>		
<i>Debt securities</i>	96,192	223,066
<i>Equity securities</i>	57,853	52,271
<i>Other</i>	47,233	23,139
<i>Purchases</i>		
<i>Debt securities</i>	(104,679)	(231,089)
<i>Equity securities</i>	(56,960)	(52,538)
<i>Other</i>	(47,117)	(24,008)
Proceeds from sale and repurchase agreements	(502)	(14)
Movements in receivables and payables	1,379	(279)
Net changes in debt for capital markets	411	(2,054)
Net changes in other operational assets and liabilities	(995)	1,283
Deferred income tax, net	255	711
Net cash provided by/(used in) operating activities	2,310	(1,346)

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

in USD millions, for the year ended December 31	2010	2009
Cash flows from investing activities		
Sales of property and equipment	117	86
Purchase of property and equipment	(182)	(359)
Disposal of equity method accounted investments, net	2	6
Acquisitions of companies, net of cash acquired	(48)	(307)
Divestments of companies, net of cash balances	(27)	(10)
Dividends from equity method accounted investments	3	5
Net cash used in investing activities	(135)	(581)
Cash flows from financing activities		
Dividends paid	(2,220)	(1,426)
Issuance of share capital	95	929
Net movement in treasury shares and preferred securities	(61)	367
Issuance of debt	709	3,475
Repayments of debt outstanding	(982)	(898)
Net cash provided by/(used in) financing activities	(2,460)	2,448
Foreign currency translation effects on cash and cash equivalents	(383)	859
Change in cash and cash equivalents excluding change in cash held as collateral for securities lending	(668)	1,380
Cash and cash equivalents as of January 1, excluding cash held as collateral for securities lending	16,389	15,009
Cash and cash equivalents as of December 31, excluding cash held as collateral for securities lending	15,721	16,389
Change in cash held as collateral for securities lending	(493)	316
Cash and cash equivalents as of January 1, including cash held as collateral for securities lending	16,882	15,186
Cash and cash equivalents as of December 31, including cash held as collateral for securities lending	15,721	16,882
of which:		
– cash and cash equivalents – Group investments	8,558	11,042
– cash and cash equivalents – unit linked	7,163	5,840
Other supplementary cash flow disclosures		
Other interest income received	6,868	7,146
Dividend income received	1,667	1,644
Other interest expense paid	(1,182)	(1,146)
Income tax paid	(1,363)	(1,019)

As of December 31, 2010 and 2009, cash and cash equivalents held to meet local regulatory requirements were USD 1,238 million and USD 1,678 million, respectively.

Cash and cash equivalents	in USD millions, as of December 31	2010	2009
	Cash and cash equivalents comprise the following:		
	Cash at bank and in hand	7,363	7,388
	Cash equivalents	8,358	9,000
	Cash held as collateral for securities lending	–	493
	Total	15,721	16,882

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

Consolidated financial statements *continued*

Consolidated statements of changes in equity

in USD millions				
	Share capital	Additional paid-in capital	Net unrealized gains/(losses) on available-for-sale investments	
Balance as of December 31, 2008, as previously reported	10	10,131	(2,957)	
Total adjustments due to restatement	–	–	(66)	
Balance as of December 31, 2008, as restated	10	10,131	(3,024)	
Issuance of share capital ¹	–	929	–	
Dividends to shareholders	–	–	–	
Share-based payment transactions	–	59	–	
Treasury share transactions ²	–	282	–	
Total comprehensive income for the period, net of tax	–	–	3,411	
<i>Net income</i>	–	–	–	
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	3,411	
<i>Cash flow hedges</i>	–	–	–	
<i>Cumulative foreign currency translation adjustment</i>	–	–	–	
<i>Net actuarial gains/(losses) on pension plans</i>	–	–	–	
Net changes in capitalization and non-controlling interests	–	–	–	
Balance as of December 31, 2009, as restated	10	11,400	387	
Balance as of December 31, 2009, as previously reported	10	11,400	334	
Total adjustments due to restatement	–	–	53	
Balance as of December 31, 2009, as restated	10	11,400	387	
Issuance of share capital ¹	–	205	–	
Dividends to shareholders	–	–	–	
Share-based payment transactions	–	28	–	
Treasury share transactions ²	–	(3)	–	
Change of ownership with no loss of control	–	–	–	
Total comprehensive income for the period, net of tax	–	–	2,081	
<i>Net income</i>	–	–	–	
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	2,081	
<i>Cash flow hedges</i>	–	–	–	
<i>Cumulative foreign currency translation adjustment</i>	–	–	–	
<i>Revaluation reserve</i>	–	–	–	
<i>Net actuarial gains/(losses) on pension plans</i>	–	–	–	
Net changes in capitalization and non-controlling interests	–	–	–	
Balance as of December 31, 2010	10	11,630	2,468	

¹ The number of common shares issued as of December 31, 2010 was 146,586,896 (December 31, 2009: 147,473,068, December 31, 2008: 142,122,620).

² The number of treasury shares deducted from equity as of December 31, 2010 amounted to 1,399,080 (December 31, 2009: 3,269,338, December 31, 2008: 5,219,803). On March 30, 2010, the cancellation of the 1,836,404 shares with nominal value of CHF 0.10 each repurchased through the Group share buy-back program until December 2008 was approved by the Annual General Meeting. The effective date of the capital reduction was June 15, 2010.

	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Common shareholders' equity	Preferred securities	Shareholders' equity	Non-controlling interests	Total equity
	(16)	(1,341)	99	15,616	21,542	561	22,103	1,678	23,781
	-	-	-	(1,174)	(1,241)	-	(1,241)	-	(1,241)
	(16)	(1,341)	99	14,441	20,301	561	20,862	1,678	22,540
	-	-	-	-	929	-	929	-	929
	-	-	-	(1,389)	(1,389)	(19)	(1,408)	(17)	(1,425)
	-	-	-	-	59	-	59	-	59
	-	-	-	85	366	-	366	-	366
	7	944	(1)	4,115	8,476	19	8,495	91	8,586
	-	-	-	3,943	3,943	19	3,963		
	-	-	-	-	3,411	-	3,411		
	7	-	-	-	7	-	7		
	-	944	-	-	944	-	944		
	-	-	-	171	171	-	171		
	-	-	-	-	-	-	-	48	48
	(9)	(396)	98	17,253	28,743	561	29,304	1,800	31,104
	(9)	(396)	98	17,680	29,117	561	29,678	1,800	31,478
	-	-	-	(427)	(374)	-	(374)	-	(374)
	(9)	(396)	98	17,253	28,743	561	29,304	1,800	31,104
	-	-	-	-	205	-	205	-	205
	-	-	-	(2,202)	(2,202)	(11)	(2,213)	(7)	(2,220)
	-	-	-	-	28	-	28	-	28
	-	-	-	28	25	(86)	(61)	-	(61)
	-	-	-	4	4	-	4	-	4
	65	(729)	28	3,261	4,705	11	4,717	(13)	4,704
	-	-	-	3,422	3,422	11	3,434		
	-	-	-	-	2,081	-	2,081		
	65	-	-	-	65	-	65		
	-	(729)	-	-	(729)	-	(729)		
	-	-	28	-	28	-	28		
	-	-	-	(162)	(162)	-	(162)		
	-	-	-	-	-	-	-	(443)	(443)
	56	(1,125)	126	18,344	31,509	475	31,984	1,337	33,321

Consolidated financial statements *continued*

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

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

On February 9, 2011 the Board of Directors of Zurich Financial Services Ltd authorized these Consolidated financial statements for issue. These financial statements will be submitted for approval to the Annual General Meeting of Shareholders to be held on March 31, 2011.

1. Basis of presentation

General information

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

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

Disclosures under IFRS 4 "Insurance Contracts" and IFRS 7 "Financial Instruments: Disclosures" relating to the nature and extent of risks, and capital disclosures under IAS 1 "Presentation of Financial Statements" have been included in the "Risk Review" on pages 96 to 131, and they form an integral part of the Consolidated financial statements.

Significant subsidiaries included in the scope of consolidation are disclosed on pages 256 to 258.

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

The Group erroneously classified certain life insurance products. The classification was corrected in the current year as the impact on the Group's income statement was not material. The reclassifications in the balance sheet from reserves for unearned premiums, reserves for policyholders' contract deposits and other funds, and liabilities related to investment contracts with discretionary participation features (DPF) to reserves for future life policyholders' benefits and liabilities related to unit-linked investment contracts are shown in notes 8 and 9.

Reserves for premium rebates previously reported as reserves for premium refunds amounting to USD 94 million as of December 31, 2009, are now presented as deferred front-end fees to better reflect the nature of the underlying transactions. The classification was corrected in the current year as the impact on the Group's income statement was not material.

Certain balances previously reported as cash and cash equivalents amounting to USD 589 million as of December 31, 2009, are now presented, depending on their nature and measurement basis, as debt securities available-for-sale, equity securities available-for-sale, other loans and receivables. Furthermore, certain deposits previously presented under debt related to capital markets and banking activities within debt amounting to USD 814 million as of December 31, 2009, are now presented under other liabilities. The related impact on the Group's income statement amounting to USD 31 million as of December 31, 2009, has been reclassified from interest expense on debt to other interest expense, accordingly. These changes in presentation are reflected in the consolidated balance sheets, consolidated income statements, consolidated statements of cash flows and notes 6 and 22.

Premium taxes erroneously reported under Administrative and other operating expense amounting to USD 149 million as of December 31, 2009, are now presented under Underwriting and policy acquisition costs in order to ensure consistency with the treatment of other related items.

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

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

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

Maturity tables have been provided for the following balances: reserves for insurance contracts (tables 17a and 17b in the "Risk Review"), liabilities for investment contracts (tables 18a and 18b in the "Risk Review"), debt securities (table 6.4), derivative assets and derivative liabilities (tables 7.1 and 7.2), collateralized loans (table 16), other financial liabilities (table 20.2) and outstanding debt (table 22.3).

Changes related to operating segments are shown in note 30.

All amounts in the Consolidated financial statements, 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.

The table below summarizes the principal exchange rates that have been used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 134 million and USD (49) million for the years ended December 31, 2010 and 2009, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD (141) million and USD 118 million for the years ended December 31, 2010 and 2009, respectively.

Table 1

USD per foreign currency unit

Principal exchange rates

	Balance sheets		Income statements and cash flows	
	12/31/2010	12/31/2009	2010	2009
Euro	1.3391	1.4333	1.3272	1.3935
Swiss franc	1.0707	0.9649	0.9617	0.9232
British pound	1.5596	1.6164	1.5459	1.5650

Consolidated financial statements *continued*

Change in accounting policies in 2010

The Group decided to dynamically hedge the risks associated with its closed U.S. life book included in its Non-Core Businesses segment, starting in March 2010. In order to offset the accounting volatility from the fair valuation of the hedge, the Group concluded that it should measure the underlying insurance liabilities in this book of business at current value and as a consequence has changed its accounting policy for this closed U.S. life book by exercising the option in IFRS 4 to remeasure designated insurance liabilities using current financial and non-financial assumptions. All financial assets, which were previously designated as available-for-sale, related to these insurance liabilities have therefore also been redesignated at fair value through profit or loss. As a consequence of this change in accounting policy, prior year figures have been restated to ensure comparability. Business operating profit (BOP) has not been restated, as the business was not managed on a fair value basis, prior to the implementation of the dynamic hedge and therefore to restate BOP would not be a fair reflection of a sustainable operating profit nor provide comparability with the previous period.

Table 1.1

in USD millions, for the year ended December 31, 2009

	As reported	Change in accounting policy	Other restate-ments	As restated
Revenues				
Gross written premiums and policy fees	53,817	–	–	53,817
Less premiums ceded to reinsurers	(5,844)	–	–	(5,844)
Net written premiums and policy fees	47,973	–	–	47,973
Net change in reserves for unearned premiums	(746)	–	–	(746)
Net earned premiums and policy fees	47,227	–	–	47,227
Farmers management fees and other related revenues	2,690	–	–	2,690
Net investment result on Group investments	6,082	(153)	–	5,929
Net investment income on Group investments	7,505	–	–	7,505
Net capital gains/(losses) and impairments on Group investments	(1,423)	(153)	–	(1,576)
Net investment result on unit-linked investments	12,475	–	–	12,475
Net gain/(loss) on divestments of businesses	(5)	–	–	(5)
Other income	1,802	–	–	1,802
Total revenues	70,272	(153)	–	70,118
Benefits, losses and expenses				
Insurance benefits and losses, gross of reinsurance	39,522	(1,217)	–	38,304
Less ceded insurance benefits and losses	(3,261)	59	–	(3,201)
Insurance benefits and losses, net of reinsurance	36,261	(1,158)	–	35,103
Policyholder dividends and participation in profits, net of reinsurance	12,859	–	–	12,859
Underwriting and policy acquisition costs, net of reinsurance	8,254	–	149	8,403
Administrative and other operating expense	7,248	(1)	(149)	7,098
Interest expense on debt	586	–	(31)	555
Interest credited to policyholders and other interest	533	–	31	563
Total benefits, losses and expenses	65,741	(1,159)	–	64,582
Net income before income taxes	4,531	1,006	–	5,537
Income tax expense	(1,295)	(258)	–	(1,553)
attributable to policyholders	(387)	–	–	(387)
attributable to shareholders	(908)	(258)	–	(1,167)
Net income after taxes	3,236	747	–	3,983
attributable to non-controlling interests	21	–	–	21
attributable to shareholders	3,215	747	–	3,963
in USD				
Basic earnings per share	22.51	5.26	–	27.78
Diluted earnings per share	22.35	5.23	–	27.58
in CHF				
Basic earnings per share	24.39	5.70	–	30.09
Diluted earnings per share	24.21	5.66	–	29.88

Restatement and reclassifications of consolidated income statement

**Restatement of
consolidated balance
sheet**

Table 1.2

in USD millions, as of December 31, 2009

	As reported	Change in accounting policy	Other restate- ments	As restated
Investments				
Total Group investments	196,258	–	(600)	195,658
Cash and cash equivalents	11,631	–	(589)	11,041
Equity securities	12,450	–	131	12,581
Debt securities	136,344	–	380	136,723
Real estate held for investment	7,789	–	–	7,789
Mortgage loans	12,736	–	–	12,736
Other loans	15,077	–	(521)	14,556
Equity method accounted investments	232	–	–	232
Investments for unit-linked contracts	99,167	–	–	99,167
Total investments	295,425	–	(600)	294,825
Reinsurers' share of reserves for insurance contracts	18,627	124	–	18,751
Deposits made under assumed reinsurance contracts	3,861	–	–	3,861
Deferred policy acquisition costs	16,181	–	–	16,181
Deferred origination costs	856	–	–	856
Accrued investment income	2,744	–	–	2,744
Receivables	13,182	1	600	13,782
Other assets	3,327	–	–	3,327
Mortgage loans given as collateral	1,102	–	–	1,102
Deferred tax assets	2,257	164	–	2,421
Assets held for sale	67	–	–	67
Property and equipment	1,942	–	–	1,942
Goodwill	2,297	–	–	2,297
Other intangible assets	7,044	–	–	7,044
Total assets	368,914	288	–	369,202
Liabilities				
Reserve for premium refunds	649	–	–	649
Liabilities for investment contracts	46,124	–	–	46,124
Deposits received under ceded reinsurance contracts	1,558	–	–	1,558
Deferred front-end fees	5,543	–	–	5,543
Reserves for insurance contracts	241,412	682	–	242,094
Obligations to repurchase securities	3,976	–	–	3,976
Accrued liabilities	2,839	–	–	2,839
Other liabilities	17,485	–	814	18,299
Collateralized loans	1,102	–	–	1,102
Deferred tax liabilities	4,464	(20)	–	4,445
Debt related to capital markets	839	–	(814)	25
Senior and subordinated debt	11,444	–	–	11,444
Total liabilities	337,435	662	–	338,098
Equity				
Shareholders' equity	29,678	(374) ¹	–	29,304
Non-controlling interests	1,800	–	–	1,800
Total equity	31,478	(374)	–	31,104
Total liabilities and equity	368,914	288	–	369,202

¹ Of the USD (374) million restatement of total equity, USD 867 million relates to 2009, and USD (1,241) million relates to 2008 and prior years.

Consolidated financial statements *continued*

2. New accounting standards and amendments to published accounting standards

Standards, amendments and interpretations effective or early adopted as of January 1, 2010 and relevant for the Group's operations

The following new accounting standards or amendments to and interpretations of standards relevant to the Group have been implemented for the financial year beginning January 1, 2010 with no material impact on the Group's financial position or performance.

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

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

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

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

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

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

In November 2009, the IASB issued IFRIC Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments' which clarifies the accounting when the terms of a financial liability are renegotiated and result in the issue of equity instruments by an entity to settle, in full or in part, that financial liability. The interpretation is effective for annual periods beginning on or after July 1, 2010 with earlier application being permitted.

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

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

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

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

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

While the accounting treatment for transferred assets is unchanged (see IFRS 9 above), in October 2010, the IASB amended IFRS 7 "Financial Instruments: Disclosures" to include additional disclosure requirements regarding transfers of assets (for example, securities sold under repurchase agreements or securities lending transactions) with the aim of increasing the transparency in the risk exposures relating to such transferred assets. The amendment will be effective for annual periods beginning on or after July 1, 2011.

In May 2010, the IASB issued amendments to IFRS resulting from the IASB's annual improvement project. These amendments will be effective for annual periods beginning on or after January 1, 2011. The amendments primarily comprise clarification to presentation, disclosure and measurement provisions related to a several IFRS standards.

In December 2010, the IASB issued amendments to IAS 12 "Income Taxes". The amendments will be effective for reporting periods beginning on or after January 1, 2012. The amendments provide a practical approach for measuring deferred taxes when investment property is measured using the fair value model.

Consolidated financial statements *continued*

3. Summary of significant accounting policies

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

a) Consolidation principles

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

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

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

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

b) Foreign currency translation and transactions

Foreign currency translation

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

Foreign currency transactions and balances

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

- when the gain or loss on non-monetary items measured at fair value, such as available-for-sale equity securities, is recognized directly in OCI, any foreign currency component of that gain or loss is also recognized directly in OCI;
- changes in the fair value of monetary items denominated in foreign currency, such as debt securities, that are classified as available-for-sale, are analyzed between foreign currency translation differences resulting from changes in the amortized cost of the security and other fair value changes in the security. Foreign currency translation differences related to changes in amortized cost are recognized in income, and those related to other changes in fair value are recognized in OCI; and
- foreign currency translation differences arising on monetary items that form part of net investments in foreign operations are recognized directly in OCI as cumulative translation adjustments.
- Goodwill and any fair value adjustment to the carrying amounts of assets and liabilities on the acquisition of a foreign operation are expressed in the functional currency of the foreign operation and are translated at the end-of-period exchange rates, with any foreign currency translation differences recorded directly in OCI as cumulative translation adjustments.

Equity method accounted investments are translated at the end-of-period exchange rates, with any foreign currency translation differences recorded directly in OCI as cumulative translation adjustments.

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

Classification

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

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

- that are likely to be a significant portion of the total contractual benefits;
- the amount or timing of which is contractually at the discretion of the Group; and
- that are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract;
 - realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
 - the net income of the company, fund or other entity that issues the contract. The Group applies the same accounting policies for the recognition and measurement of obligations arising from insurance contracts and from investment contracts with DPF. These recognition and measurement criteria apply to obligations arising from the contract, deferred acquisition costs and other related intangibles.

The Group also issues products containing an embedded option to the policyholder to switch all or part of the current and future invested funds into another product issued by the Group. Where this results in the reclassification of an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are also reclassified and are accounted for in accordance with the accounting policies for the new product on a prospective basis.

As a consequence, no gain or loss is recognized as a result of the reclassification of a contract from investment to insurance.

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

Premiums

General insurance

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

Life insurance

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

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

Consolidated financial statements *continued*

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

Reserves for losses and loss adjustment expenses

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

Reserves for life benefits

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

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

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

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

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

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

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

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

Reserves for unit-linked contracts represent the estimated policy benefits for investment type insurance contracts invested in unit-linked funds. This liability is recorded at an amount equal to the consideration received plus accumulated investment yield less any fees charged or dividends paid to the policyholder.

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

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

Discretionary participation features (DPF)

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

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

Deferred policy acquisition costs (DAC)

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

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

General insurance

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

Life insurance

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

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

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

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

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

Liability adequacy tests

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

General insurance

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

Life insurance

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

Consolidated financial statements *continued*

Reinsurance

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

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

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

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

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

d) Liabilities for investment contracts (without DPF)

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

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

Unit-linked investment contracts

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

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

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

Investment contracts at amortized cost

Liabilities for investment contracts with fixed and guaranteed terms are measured at amortized cost, using the effective interest rate method. Transaction costs are deducted from the initial amount and form part of the effective yield.

As of each reporting date, the Group re-estimates the expected future cash flows and re-calculates the carrying amount of the financial liability by computing the present value of estimated future cash flows using the original effective interest rate for the financial liability. Any adjustment is immediately recognized as income or expense.

Deferred origination costs (DOC)

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

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

e) Non-derivative investments

Investments includes non-derivative financial assets, cash and cash equivalents and real estate held for investment.

Categories and measurement of non-derivative investments

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

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

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

Available-for-sale financial assets

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

Held-to-maturity investments

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

Consolidated financial statements *continued*

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

Loans and receivables

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

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

Other items

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

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

Impairment of non-derivative financial assets

General

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

- a) significant financial difficulty of the issuer or debtor;
- b) a breach of contract, such as a default or delinquency in payments;
- c) it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- d) the disappearance of an active market for that financial asset because of financial difficulties; or
- e) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in that group, including:
 - adverse changes in the payment status of issuers or debtors in that group; or
 - national or local economic conditions that correlate with defaults relating to the assets in that group.

Available-for-sale financial assets

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

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

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

Held-to-maturity investments and loans and receivables

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

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

f) Derivative financial instruments and hedge accounting

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

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

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

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

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Derivative financial instruments that qualify for hedge accounting

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

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

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

Fair value hedges

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

Cash flow hedges

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

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

g) Borrowings

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

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

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

h) Offsetting of financial assets and financial liabilities

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

i) Derecognition of financial assets and liabilities

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

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

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

Securities lending

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

Repurchase and reverse repurchase transactions

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

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

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

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

j) Property and equipment

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

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

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

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

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

Consolidated financial statements *continued*

k) Intangible assets

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

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

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

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

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

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

Goodwill

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

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

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

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

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

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

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

Attorney-in-fact relationships (AIF)

The AIF reflects the ability of the Group to generate future revenues based on the Group's relationship with the

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

Distribution agreements

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

Software

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

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

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

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

l) Provisions, contingent liabilities, commitments and financial guarantees

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

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

m) Treasury shares

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

n) Other revenue recognition

Farmers management fees

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

Consolidated financial statements *continued*

functions. The Farmers Exchanges are directly responsible for their own claims functions, including the settlement and payment of claims and claims adjustment expenses, as well as for the payment of agent commissions and bonuses and the payment of premium and income taxes.

Other fees and commission income

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

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

- Front-end fees charged to the customer at inception are used particularly for single premium contracts. The consideration received is deferred as a liability and recognized over the life of the contract on a straight-line basis.
- Regular fees charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds are billed in advance and recognized on a straight-line basis over the period in which the service is rendered. Fees charged at the end of the period are accrued as a receivable and are offset against the financial liability when charged to the customer.

o) Net investment income

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

Investment income

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

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

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

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

Investment expenses

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

p) Employee benefits

Share-based compensation and cash incentive plans

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

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

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

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

Retirement benefits

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

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

Other post-employment benefits

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

q) Leases

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

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

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

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r) Income taxes

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

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

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

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

4. Critical accounting judgements and estimates

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

a) Reserves for losses and loss adjustment expenses

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

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

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

The time required to learn of and settle claims is an important consideration in establishing the Group's reserves.

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

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

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

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

See notes 8 and 11 for further information on reserves for losses and loss adjustment expenses and to the Insurance risk section of the "Risk Review" for sensitivities on Insurance risk.

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

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

- The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty arises because of the potential for pandemics and wide-ranging lifestyle changes, such as changes in eating, smoking and exercise habits, which could result in earlier deaths for age groups in which the Group has significant exposure to mortality risk.
- For contracts that insure the risk of longevity, such as annuity contracts, an appropriate allowance is made for people living longer. Continuing improvements in medical care and social conditions could result in further improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.
- Under certain contracts, the Group has offered product guarantees (or options to take up product guarantees), including fixed minimum interest rate or mortality rate returns. In determining the value of these options and/or benefits, estimates have been made as to the percentage of contract holders that may exercise them. Changes in investment conditions could result in significantly more contract holders exercising their options and/or benefits than has been assumed.
- Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.
- Assumptions are determined with reference to current and historical client data, as well as industry data. Interest rate assumptions reflect expected earnings on the assets supporting the future policyholder benefits. The information used by the Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions, available experience studies and profitability analysis.

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

c) Fair value of financial assets and liabilities

As described in note 3, all financial assets and liabilities are recorded initially at fair value. Subsequently, available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and derivative financial instruments are carried at fair value, as of the reporting date. All other financial instruments are carried at amortized cost, with their fair values disclosed in note 27.

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

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

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

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

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

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

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

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

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

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

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

d) Impairment of assets

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

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

Consolidated financial statements *continued*

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

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

The recoverable amount for intangibles reflecting distribution agreements is determined on the basis of value-in-use calculations. These calculations use cash flow projections in line with the terms and conditions of the underlying distribution agreements. For the Life business distribution agreements, a fair value less costs to sell is determined, whereby the projected cash flows and discount rates are consistent with the data used for actuarial valuations and embedded value calculations.

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

The discount rates used in those calculations for the General Insurance and Farmers segments consider the base rates, starting with the U.S. Dollar, euro and British pound swap rates for the respective mature markets, adjusted for inflation differential expectations in emerging markets. These rates are further adjusted for equity risk premium and appropriate beta.

Perpetual nominal growth rates beyond the three-year planning period vary and are dependent on country specific growth rate and inflation expectations.

Table 4.1

Overview of discount and perpetual growth rates

	Range of discount rates in % 2010	Range of discount rates in % 2009	Perpetual nominal growth rate in % 2010	Perpetual nominal growth rate in % 2009
Western Europe	1.3–8.0	1.5–8.3	0.0–5.0	0.0–5.0
Turkey	8.4–15.1	11.3–22.4	6.0	6.0
Russia	9.1–12.7	12.0–17.9	7.3	8.5
Brazil	7.3–10.5	9.3–14.0	3.5	3.5

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

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

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

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

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

f) Deferred policy acquisition costs

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

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

g) Deferred taxes

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

See note 21 for further information on deferred taxes.

h) Employee benefits

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

See note 24 for further information on employee benefits.

i) Share-based compensation and cash incentive plans

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

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

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5. Acquisitions and divestments

Transactions in 2010

Acquisitions

On September 6, 2010 the Group, as a part of its preparations for local regulatory changes, signed an agreement to acquire 75.0 percent including a commitment to increase its investment up to 100.0 percent of 2Plan Group Limited, an independent financial advice firm based in the UK. Subject to the approval of the relevant regulatory authorities, the transaction is expected to close in the second quarter of 2011.

On November 1, 2010 the Group completed the acquisition of 80.0 percent of PT Zurich Topas Life (formerly PT Mayapada Life), a life insurer based in Indonesia focused on the distribution of group and individual life and health plans. Mayapada Group will continue to hold 20.0 percent of PT Zurich Topas Life. Through this transaction, the Group established its presence in the Indonesian life insurance market. As of December 31, 2010, the Group was still in the process of preparing the initial accounting and, therefore, the initial purchase price was recorded as an unconsolidated investment in other assets.

On December 1, 2010 the Group completed the acquisition of 99.99 percent of Compagnie Libanaise d'Assurances SAL, a composite insurer based in Lebanon with branch operations in the United Arab Emirates, Kuwait and Oman. With this transaction the Group accelerated the expansion of its operations in the Middle East. The total purchase price amounted to USD 60 million of which USD 12 million will be paid during 2011 subject to purchase price and other adjustments. As of December 31, 2010, the Group was still in the process of preparing the initial accounting and, therefore, the total purchase price was recorded as an unconsolidated investment in other assets.

Divestments and loss of control

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

The Group has lost control from an accounting perspective in CaixaSabadell Vida, S.A. de Seguros y Reaseguros and CaixaSabadell Compagnia d'Assegurances Generals, S.A. at September 30, 2010, following the merger of the bank distribution partner Caixa d'Estalvis de Sabadell (Caixa Sabadell) together with two other Spanish savings banks to form Caixa d'Estalvis Unió de Caixes de Manlleu, Sabadell i Terrassa (Unnim) on July 1, 2010. Subsequently, on November 16, 2010 the Group entered into a definitive agreement to sell back to Unnim its 50 percent stakes in the life and general insurance bancassurance companies CaixaSabadell Vida, S.A. de Seguros y Reaseguros and CaixaSabadell Compagnia d'Assegurances Generals, S.A., respectively, jointly owned with Unnim (the Unnim Jointly Owned Companies). Unnim will pay a cash consideration of USD 382 million (EUR 285 million) to the Group in exchange for the Group's Unnim Jointly Owned Companies stakes, which the Group acquired in 2008 from Caixa Sabadell. The Group has derecognized the assets and liabilities at their carrying amount and has recognized its retained investment in the Unnim Jointly Owned Companies as an equity security classified as available-for-sale as of September 30, 2010. USD 52 million has been recorded within net gain on divestments of businesses. Subject to the approval of the relevant regulatory authorities, the transaction is expected to close in the first quarter of 2011.

As of December 31, 2010 the Group no longer has control in Futuro de Bolivia S.A. Administradora de Fondos de Pensiones following changes in the regulatory environment. The Group has derecognized the assets and liabilities at their carrying amount and recorded a net loss of USD 16 million within net gain on divestments of businesses.

During 2010 the Group divested all of its shares in Trent Insurance Company Limited, a company based in the UK and Maryland Insurance Company, a company based in the U.S., for a pre-tax gain on disposal in aggregate of USD 2 million with immaterial cash and net assets sold.

Transactions in 2009

Acquisitions

Table 5.1

Business combinations – prior period	in USD millions			
	21st Century ¹	Minas Brasil	Total	
Book value of net assets prior to acquisition	147	9	156	
Fair value of net tangible assets acquired	11	9	20	
Identifiable intangible assets, net of deferred tax	91	19	110	
Goodwill	438	114	552	
Total acquisition costs	539	143	682	
Cash consideration	320	135	455	
Subordinated capital notes transferred	201	–	201	
Transaction costs	18	3	21	
Present value of deferred payments	–	4	4	
Cash and cash equivalents acquired	–	47	47	

¹ The 21st Century purchase price allocation comprises the purchase price adjustment completed during 2010.

On July 1, 2009, the Group completed the acquisition of 100 percent of the U.S. Personal Auto Group, primarily comprising the direct platform of 21st Century and consequently named “21st Century” going forward, from American International Group, Inc. The purchase price amounted to USD 1,893 million, of which USD 1,692 million was paid in cash and USD 201 million was met through the issue of Euro denominated Subordinated Capital Notes. As part of the transaction, the Group contemporaneously sold the regulated insurance businesses and certain other related net assets to the Farmers Exchanges, which are managed but not owned by Farmers Group Inc, a wholly owned subsidiary of the Group, for USD 1,372 million in cash, resulting in a net purchase price of USD 521 million for the management services business retained by the Group. This transaction reduced the overall volatility of the Group’s portfolio of businesses. The Group has incurred transaction costs directly attributable to the business combination of USD 18 million, which are included in the total acquisition costs of USD 539 million. Upon completion of the final initial accounting, net tangible assets of USD 11 million (initially USD 8 million) and capitalized software of USD 91 million were acquired. The residual goodwill of USD 438 million (initially USD 440 million) reflects the economic benefit of the retained management services business. Total revenues and business operating profit of the retained management services business for the six months starting July 1, 2009 and ending December 31, 2009 were USD 214 million and USD 81 million, respectively. The book value of net assets prior to acquisition amounted to USD 147 million.

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

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Divestments

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

6. Investments

Table 6.1a

Investment result for total investments

in USD millions, for the years ended December 31

	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2010	2009	2010	2009	2010	2009
Cash and cash equivalents	158	175	(43)	94	115	269
Equity securities	1,674	1,601	8,467	10,536	10,142	12,138
Debt securities	5,550	5,864	1,500	(301)	7,050	5,563
Real estate held for investment	791	804	216	(352)	1,007	452
Mortgage loans	505	575	(353)	(235)	153	339
Other loans	715	724	49	22	763	746
Equity method accounted investments	17	4	(37)	(4)	(20)	–
Other investments ¹	–	64	(369)	(498)	(369)	(435)
Investment result, gross	9,410	9,812	9,430	9,261	18,841	19,073
Investment expenses	(757)	(669)	–	–	(757)	(669)
Investment result, net	8,653	9,143	9,430	9,261	18,083	18,404

¹ Net capital gains/(losses) arise entirely from derivative financial instruments, of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 10 million and USD 33 million for the years ended December 31, 2010 and 2009, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 201 million and USD 211 million for the years ended December 31, 2010 and 2009, respectively.

Table 6.1b

Investment result for Group investments

in USD millions, for the years ended December 31

	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2010	2009	2010	2009	2010	2009
Cash and cash equivalents	52	103	(1)	6	51	109
Equity securities	340	346	285	(264)	625	82
Debt securities	5,268	5,531	1,230	(689)	6,498	4,842
Real estate held for investment	466	464	28	131	494	594
Mortgage loans	505	575	(353)	(235)	153	339
Other loans	669	718	54	22	723	740
Equity method accounted investments	17	4	(37)	(4)	(20)	–
Other investments ¹	–	8	(308)	(543)	(308)	(535)
Investment result, gross for Group investments	7,317	7,748	898	(1,576)	8,215	6,171
Investment expenses for Group investments	(225)	(243)	–	–	(225)	(243)
Investment result, net for Group investments	7,092	7,505	898	(1,576)	7,990	5,929

¹ Net capital gains/(losses) arise entirely from derivative financial instruments, of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 10 million and USD 33 million for the years ended December 31, 2010 and 2009, respectively.

For the years ended December 31, 2010 and 2009, respectively, impairment charges on Group investments included in net capital losses amounted to USD 1,001 million and USD 1,394 million, of which impairment charges on mortgage loans, other loans and equity method accounted investments comprised USD 407 million and USD 231 million, respectively. Impairment charges on mortgage loans in both years are primarily attributable to the Group's banking activities.

Table 6.1c

Investment result for unit-linked contracts	in USD millions, for the years ended December 31					
	Net investment income		Net capital gains/(losses) on investments		Investment result	
	2010	2009	2010	2009	2010	2009
Cash and cash equivalents	106	72	(42)	88	64	160
Equity securities	1,335	1,256	8,182	10,800	9,516	12,055
Debt securities	282	334	270	387	552	721
Real estate held for investment	325	341	188	(483)	513	(142)
Other loans	46	7	(6)	–	40	7
Other investments ¹	–	56	(60)	45	(60)	101
Investment result, gross for unit-linked contracts	2,093	2,064	8,533	10,837	10,626	12,901
Investment expenses for unit-linked contracts	(532)	(426)	–	–	(532)	(426)
Investment result, net unit-linked contracts	1,561	1,638	8,533	10,837	10,093	12,475

¹ The net capital gains/(losses) arise entirely from derivative financial instruments.

Table 6.2

Net capital gains, losses and impairments on equity and debt securities on total investments	in USD millions, for the years ended December 31					
	Equity securities		Debt securities		Total	
	2010	2009	2010	2009	2010	2009
Securities at fair value through profit or loss:	8,476	11,273	643	239	9,120	11,512
Net capital gains/(losses) on Group investments	294	474	373	(149)	667	325
<i>of which:</i>						
<i>Trading securities</i>	36	69	4	(2)	40	66
<i>Securities designated at fair value through profit or loss</i>	258	405	369	(146)	628	258
Net capital gains/(losses) for unit-linked contracts	8,182	10,800	270	387	8,452	11,187
Available-for-sale securities:	(9)	(737)	817	(476)	808	(1,213)
Realized capital gains on Group investments	610	323	1,468	988	2,078	1,312
Realized capital losses on Group investments	(122)	(471)	(514)	(955)	(636)	(1,425)
Impairments on Group investments	(497)	(590)	(137)	(510)	(634)	(1,100)
Held-to-maturity securities ¹	–	–	40	(64)	40	(64)
Total net capital gains/(losses) and impairments	8,467	10,536	1,500	(301)	9,967	10,235

¹ 2010 gain arises entirely from the reversal of impairments. 2009 loss included impairments of USD 63 million.

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Details of total investments by category		Table 6.3a			
		as of December 31			
		2010		2009	
		USD millions	% of total	USD millions	% of total
Cash and cash equivalents		15,721	5.2	16,882	5.7
Equity securities:					
Fair value through profit or loss		89,695	29.5	83,329	28.3
of which:					
Trading securities		473	0.2	879	0.3
Securities designated at fair value through profit or loss		89,223	29.4	82,449	28.0
Available-for-sale ¹		9,798	3.2	7,563	2.6
Total equity securities		99,494	32.7	90,892	30.8
Debt securities:					
Fair value through profit or loss		16,245	5.3	17,878	6.1
of which:					
Trading securities		43	0.0	82	0.0
Securities designated at fair value through profit or loss		16,202	5.3	17,797	6.0
Available-for-sale		128,257	42.2	123,896	42.0
Held-to-maturity		5,129	1.7	5,143	1.7
Total debt securities		149,630	49.2	146,918	49.8
Real estate held for investment		12,355	4.1	11,686	4.0
Mortgage loans		11,851	3.9	12,736	4.3
Other loans		14,606	4.8	15,480	5.3
Equity method accounted investments		188	0.1	232	0.1
Total investments		303,845	100.0	294,825	100.0

¹ Includes a 20 percent investment in New China Life Insurance Company Ltd., in which the Group has no significant influence.

Details of Group investments by category		Table 6.3b			
		as of December 31			
		2010		2009	
		USD millions	% of total	USD millions	% of total
Cash and cash equivalents		8,558	4.4	11,041	5.6
Equity securities:					
Fair value through profit or loss		3,931	2.0	5,018	2.6
of which:					
Trading securities		473	0.2	879	0.4
Securities designated at fair value through profit or loss		3,458	1.8	4,138	2.1
Available-for-sale ¹		9,798	5.0	7,563	3.9
Total equity securities		13,729	7.0	12,581	6.4
Debt securities:					
Fair value through profit or loss		6,869	3.5	7,684	3.9
of which:					
Trading securities		43	0.0	82	0.0
Securities designated at fair value through profit or loss		6,826	3.5	7,602	3.9
Available-for-sale		128,257	65.5	123,896	63.3
Held-to-maturity		5,129	2.6	5,143	2.6
Total debt securities		140,254	71.6	136,723	69.9
Real estate held for investment		8,274	4.2	7,789	4.0
Mortgage loans		11,851	6.0	12,736	6.5
Other loans		13,043	6.7	14,556	7.4
Equity method accounted investments		188	0.1	232	0.1
Total Group investments		195,898	100.0	195,658	100.0

¹ Includes a 20 percent investment in New China Life Insurance Company Ltd., in which the Group has no significant influence.

Cash and investments with a carrying value of USD 5,176 million and USD 4,908 million were deposited on behalf of regulatory authorities as of December 31, 2010 and 2009, respectively.

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

As of December 31, 2010 and 2009, investments included USD 5,873 million and USD 5,073 million, respectively, of loaned securities. These loaned securities were mainly debt securities. Cash and cash equivalents included USD 493 million of cash received as collateral for loaned securities as of December 31 2009. Liabilities for cash collateral received for securities lending comprised USD 485 million and USD 508 million as of December 31, 2010 and 2009, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 5,663 million and USD 5,046 million as of December 31, 2010 and 2009, respectively. The Group can sell or repledge the collateral only in the event of a default by a counterparty.

As of December 31, 2010 and 2009, respectively, debt securities with a carrying value of USD 3,383 million and USD 3,938 million have been sold to financial institutions under short-term sale and repurchase agreements. These securities continue to be recognized as investments in the balance sheets. Obligations to repurchase these securities comprised USD 3,330 million and USD 3,976 million as of December 31, 2010 and 2009, respectively. The Group retains the rights to the risks and rewards of ownership of loaned securities and securities under short-term sale and repurchase agreements. These risks and rewards include changes in market values and income earned.

Table 6.3c

Details of investments held for unit-linked contracts	as of December 31		Investments for unit-linked contracts			
			2010		2009	
	USD millions	% of total	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	7,163	6.6	5,840	5.9		
Equity securities	85,765	79.5	78,311	79.0		
Debt securities	9,376	8.7	10,194	10.3		
Real estate	4,081	3.8	3,897	3.9		
Other loans	1,563	1.4	924	0.9		
Total investments for unit-linked contracts	107,947	100.0	99,167	100.0		

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

Table 6.4

Debt securities maturity schedule (total investments)	in USD millions, as of December 31		Held-to-maturity		Available-for-sale		Fair value through profit or loss	
			2010	2009	2010	2009	2010	2009
Debt securities:								
< 1 year			131	357	9,147	10,351	1,859	1,403
1 to 5 years			1,915	1,517	41,406	42,912	4,910	5,098
5 to 10 years			1,097	1,189	27,697	26,196	3,180	4,205
> 10 years			1,986	2,081	25,923	22,147	5,014	5,643
Subtotal			5,129	5,143	104,173	101,606	14,963	16,349
Mortgage and asset-backed securities:								
< 1 year			–	–	575	1,288	17	69
1 to 5 years			–	–	7,933	5,323	295	370
5 to 10 years			–	–	4,843	5,114	325	351
> 10 years			–	–	10,733	10,565	645	741
Subtotal			–	–	24,084	22,290	1,282	1,530
Total			5,129	5,143	128,257	123,896	16,245	17,878

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

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in USD millions, as of December 31		Cost or amortized cost ¹		Gross unrealized gains		Gross unrealized losses		Fair value	
		2010	2009	2010	2009	2010	2009	2010	2009
Equity securities									
Common stock		4,047	3,809	2,202	826	(324)	(289)	5,925	4,346
Unit trusts		3,730	3,489	341	166	(339)	(586)	3,731	3,070
Non-redeemable preferred stock		141	153	7	10	(7)	(15)	141	148
Total equity securities		7,919	7,451	2,551	1,002	(671)	(890)	9,798	7,563
Debt securities									
Swiss federal and cantonal governments		3,082	2,788	262	199	(9)	(2)	3,335	2,986
United Kingdom government		8,168	7,965	197	176	(22)	(30)	8,344	8,111
United States government		7,092	7,468	231	129	(104)	(169)	7,220	7,427
Other governments and supra-nationals		33,226	29,745	923	1,062	(855)	(233)	33,294	30,574
Corporate securities		50,786	51,537	2,933	2,406	(1,763)	(1,454)	51,957	52,489
Mortgage and asset-backed securities		23,617	22,787	865	556	(398)	(1,053)	24,084	22,290
Redeemable preferred stocks		23	18	–	1	–	–	24	19
Total debt securities		125,995	122,308	5,412	4,530	(3,150)	(2,941)	128,257	123,896

¹ Net of impairments (see table 6.2).

The significant increase in unrealized gains on equity securities by USD 1,548 million is primarily due to the revaluation of the Group's investment in New China Life Company Ltd. and also as a consequence of the global equity market improvements in 2010.

as of December 31		Group investments				Investments for unit-linked products		Total investments	
		2010	2009	2010	2009	2010	2009	2010	2009
		USD millions	% of total	USD millions	% of total	USD millions	USD millions	USD millions	USD millions
Equity securities:									
Common stock		2,905	26.9	4,177	32.9	45,188	42,773	48,093	46,950
<i>of which: common stock portfolios backing participating with profit policyholder contracts</i>		516	4.8	674	5.3	–	–	516	674
Unit trusts		1,024	9.5	840	6.6	40,486	35,521	41,510	36,361
Non-redeemable preferred stock		2	0.0	–	0.0	91	17	93	17
Total equity securities		3,931	36.4	5,018	39.5	85,765	78,311	89,695	83,329
Debt securities:									
Debt securities		5,851	54.2	6,462	50.9	9,111	9,887	14,963	16,349
Mortgage and asset-backed securities		1,017	9.4	1,222	9.6	265	308	1,282	1,530
Total debt securities		6,869	63.6	7,684	60.5	9,376	10,194	16,245	17,878
Total		10,799	100.0	12,702	100.0	95,141	88,505	105,940	101,207

Table 6.7

Held-to-maturity debt securities	as of December 31	2010		2009	
		USD millions	% of total	USD millions	% of total
	Swiss federal and cantonal governments	1,813	35.3	1,635	31.8
	United States government	1,576	30.7	1,310	25.5
	Other governments and supra-nationals	803	15.7	849	16.5
	Corporate securities	937	18.3	1,350	26.2
	Total held-to-maturity debt securities	5,129	100.0	5,143	100.0

Table 6.8

Real estate held for investment (total investments)	in USD millions	Total	
		2010	2009
	As of January 1	11,686	11,601
	Additions and improvements	340	431
	Disposals	(190)	(616)
	Market value revaluation	261	(308)
	Transfer from/(to) assets held for own use	77	(47)
	Transfer (to) assets held for sale	(12)	–
	Foreign currency translation effects	193	625
	As of December 31	12,355	11,686

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

Table 6.9

Equity method accounted investments	in USD millions, as of December 31	Carrying value		Share in profit		Ownership interest	
		2010	2009	2010	2009	2010	2009
		Associates:					
	DKN Financial Group Limited	33	60	2	(3)	30.51%	30.99%
	Seven Investment Management Limited	17	17	1	–	49.00%	49.00%
	Other	12	12	6	(1)	–	–
Joint ventures:							
	MCIS Zurich Insurance Berhad	36	37	3	1	40.00%	40.00%
	Other	11	11	1	1	–	–
SPEs: ¹							
	Euclid Office, L.P.	28	28	2	1	99.00%	99.00%
	Dallas Tower, L.P.	12	11	1	1	99.00%	99.00%
	Other	38	56	1	3	–	–
	Total	188	232	17	4	–	–

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

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Table 6.10			
Net unrealized gains/(losses) on Group investments included in other comprehensive income	in USD millions, as of December 31	2010	Total
		2009	2009
	Equity securities: available-for-sale	1,880	112
	Debt securities: available-for-sale	2,262	1,588
	Other	76	7
	<i>Less: amount of net unrealized gains/(losses) on investments attributable to:</i>		
	Life policyholder dividends and other policyholder liabilities	(662)	(904)
	Life deferred acquisition costs	(154)	(97)
	Deferred income taxes	(869)	(312)
	Non-controlling interests	(9)	(15)
	Total¹	2,524	379

¹ Net unrealized gains/(losses) include net gains/(losses) arising on cash flow hedges of USD 56 million and USD (9) million as of December 31, 2010 and 2009, respectively.

7. Derivative financial instruments and hedge accounting

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

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

Table 7.1 shows the fair value and notional amounts for instruments which do not qualify for hedge accounting as of December 31, 2010 and 2009, respectively. Whilst these notional amounts express the extent of the Group's involvement in derivative transactions, they are not however representative of amounts at risk. Fair values for derivatives are included in the consolidated balance sheets in other assets and other liabilities.

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

Table 7.1

in USD millions, as of December 31

	Maturity by notional amount			Notional amounts	2010		2009		
	< 1 year	1 to 5 years	> 5 years		Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
Interest rate contracts:									
OTC									
Swaps	30	878	2,146	3,054	187	(84)	1,064	102	(11)
Swaptions	876	2,113	3,628	6,618	214	(30)	3,126	126	(14)
Caps	50	156	–	206	–	–	259	–	–
Exchange traded									
Futures	1,203	–	–	1,203	–	–	1,969	–	–
Total interest rate contracts	2,159	3,147	5,774	11,080	401	(114)	6,419	228	(24)
Equity contracts:									
OTC									
Swaps	281	–	–	281	–	(1)	–	–	–
Puts	1,529	1,337	1,677	4,543	189	(225)	5,342	186	(203)
Calls	1,812	2,043	64	3,919	69	(110)	3,874	58	(243)
Exchange traded									
Puts	74	–	–	74	3	–	–	–	–
Calls	58	–	–	58	1	–	–	–	–
Futures	290	–	–	290	–	(4)	–	–	–
Total equity contracts	4,044	3,380	1,741	9,165	263	(340)	9,216	244	(446)
Foreign exchange contracts:									
OTC									
Cross Currency Swaps	–	425	–	425	–	(26)	737	21	–
Forwards	14,413	–	–	14,413	343	(445)	12,586	111	(106)
Total foreign exchange contracts	14,413	425	–	14,838	343	(471)	13,323	133	(106)
Credit contracts:									
OTC									
Credit Default Swaps	268	164	–	432	2	–	649	3	(8)
Total credit contracts	268	164	–	432	2	–	649	3	(8)
Other contracts:									
OTC									
Puts	3	–	831	833	–	(27)	1,046	–	(40)
Swaps	–	–	66	66	–	(5)	71	–	(1)
Total other contracts	3	–	896	899	–	(33)	1,116	–	(41)
Total Group derivative financial instruments	20,886	7,117	8,411	36,414	1,009	(958)	30,722	608	(625)
Total unit-linked derivative financial instruments	717	1,560	77	2,353	104	(3)	2,458	98	–
Total	21,603	8,676	8,488	38,767	1,113	(961)	33,180	706	(625)

Interest rate contracts

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

In terms of notional amounts, the major change compared with December 31, 2009 related to long receiver swaptions entered into during 2010 to protect one of the Group's large life insurance books against falling interest rates.

Equity contracts

Equity contracts are entered into mostly on a portfolio level to protect equity investments against a decline in equity market prices and to manage the risk return profile of equity exposures. Most equity contracts are purchased put options. The decrease in the notional amounts of put options between December 31, 2010 and December 31, 2009 was mainly driven by matured positions. Total return swaps and exchange traded options, have been entered into as part of a dynamic hedging strategy to manage its economic exposure and reduce the volatility associated with its closed book of variable annuities products within its U.S. life business.

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

Foreign exchange contracts

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

The notional amounts of foreign exchange forwards increased by USD 1,827 million between December 31, 2009 and December 31, 2010, as a result of new entered positions and currency effects.

Credit contracts

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

Other contracts

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

Premiums received from policyholders under these policies are invested in separate account portfolios. Throughout the life of the policies, policyholders are entitled, in addition to mortality cover, to tax-exempt investment returns linked to the performance of the underlying investments. The policies are long duration contracts providing charges and benefits over a policy life that can be greater than 45 years. SVOs reduce the volatility of the policyholders' investment returns. In the event that a policy is surrendered, the policyholder would be entitled to recover the excess of the notional SVO derived value over the market value of the underlying investments. Certain policy features as well as certain regulations provide disincentives for surrender. The Group monitors the risk of surrender on an ongoing basis and considers the likelihood of surrender as an input factor to the model to determine the fair value of the SVOs. During 2010, there were five full surrenders compared with one surrender in 2009. No SVP was paid on four of the surrenders, on the fifth, USD 1 million was paid. In 2009 the net loss on surrender amounted to USD 5 million after applicable reductions. The fair value of the derivative liability recognized in respect of the SVOs, included in written put options, was USD 25 million and USD 37 million as of December 31, 2010 and 2009, respectively. The difference between the notional SVO derived value and market value of the underlying investments for BOLI/COLI policies was USD 831 million and USD 1,043 million as of December 31, 2010 and 2009, respectively, representing the total net market value loss after surrender charges in the unlikely event that all policies would have been surrendered on those dates.

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

Maturity profile of notional amounts and fair values of derivative financial instruments	Maturity by notional amount			Notional principal amounts	2010		2009		
	< 1 year	1 to 5 years	> 5 years		Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
Fair value hedges:									
Cross currency interest rate swaps	–	1,540	–	1,540	258	–	858	204	–
Currency swaps	–	1	69	69	–	(37)	71	–	(29)
Total fair value hedges	–	1,541	69	1,609	258	(37)	929	204	(29)
Cash flow hedges:									
Options on interest rate swaps	712	–	3,143	3,855	331	–	3,474	171	–
Currency swaps	–	1,768	–	1,768	68	(7)	1,768	255	–
Interest rate swaps	76	101	124	302	6	–	566	2	(6)
Total cash flow hedges	789	1,870	3,266	5,925	406	(7)	5,808	428	(6)

Fair value hedges

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

A fair value hedge relationship on the EUR 500 million 4.5 percent subordinated bond due June 2025 issued by Zurich Finance (USA), Inc. (see note 22), was entered into at the issuance of the debt instrument in 2005 and will end on June 15, 2015.

A fair value hedge relationship on 20 percent of the EUR 1 billion 4.5 percent senior debt due for repayment in 2014 issued by Zurich Finance (USA), Inc. (see note 22), was entered into on January 1, 2007 and will end at maturity of the underlying debt instrument in 2014.

A fair value hedge relationship on the USD 750 million 3.25 percent senior bond due for repayment in September 2013 issued by Zurich Finance (Luxembourg), S.A. (see note 22), was entered into on April 8, 2010 and will end at maturity of the underlying debt instrument in 2013.

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

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

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

	2010	2009
Gains/(losses) arising from fair value hedges		
<i>on hedging instruments¹</i>	(52)	62
<i>on hedged item attributable to the hedged risk</i>	44	(57)

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

Cash flow hedges

Designated cash flow hedges, such as options on interest rate swaps are used to protect the Group against variability of future cash flows due to changes in interest rates associated with expected future purchases of debt securities (during the years 2011, 2016, 2021 and 2026) required for certain life insurance policies. The effective portion of the gains and losses on these swaps are initially recognized in comprehensive income. Subsequently the gains or losses will be recycled to income between the years ended December 31, 2011 and 2036. The gains and losses relating to the ineffective portion of these hedges are recognized immediately in income within net capital gains/losses on investments and impairments.

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

As of December 31, 2010 the following cash flow hedge relationships were in place (see note 22):

- 80 percent of the EUR 1 billion 4.5 percent senior bond due 2014 issued by Zurich Finance (USA), Inc. entered on January 1, 2007 ending September 17, 2014.
- 100 percent of EUR 600 million 6.5 percent senior bond due October 2015 issued by Zurich Finance (USA), Inc. entered on April 14, 2009 ending October 15, 2015.

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

The net gains deferred in other comprehensive income on derivatives designated as cash flow hedges were USD 74 million and USD 23 million before tax for the years ended December 31, 2010 and 2009, respectively.

The portion recognized in income was a loss of USD 134 million and a gain of USD 96 million before tax for the years ended December 31, 2010 and 2009, respectively, as an offset to the foreign currency revaluation on the underlying hedged debt.

A net gain of USD 10 million and USD 32 million for the years ended December 31, 2010 and 2009, respectively, was recognized in net capital gains/(losses) and impairments due to a hedge ineffectiveness and changes in the time value of the option.

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

Table 8.1

Reserves for insurance contracts	in USD millions, as of					
	Gross		Ceded		Net	
	12/31/10	12/31/09	12/31/10	12/31/09	12/31/10	12/31/09
Reserves for losses and loss adjustment expenses	68,069	68,086	(12,093)	(12,182)	55,976	55,903
Reserves for unearned premiums	16,046	17,676	(2,179)	(2,000)	13,868	15,676
Future life policyholders' benefits	79,315	79,271	(2,423)	(2,199)	76,891	77,072
Policyholders' contract deposits and other funds	17,430	18,857	(2,246)	(2,457)	15,184	16,400
Reserves for unit-linked contracts	61,786	58,204	–	–	61,786	58,204
Total reserves for insurance contracts¹	242,646	242,094	(18,942)	(18,839)	223,704	223,255

¹ The total reserves for insurance contracts ceded are gross of allowance for uncollectible amounts of USD 132 million and USD 88 million as of December 31, 2010 and December 31, 2009, respectively.

Table 8.2

Development of reserves for losses and loss adjustment expenses	in USD millions					
	Gross		Ceded		Net	
	2010	2009	2010	2009	2010	2009
As of January 1	68,086	65,218	(12,182)	(12,232)	55,903	52,986
Losses and loss adjustment expenses incurred:						
Current year	28,917	28,308	(3,930)	(2,610)	24,987	25,698
Prior years	(1,819)	(933)	452	(126)	(1,367)	(1,059)
Total incurred	27,098	27,375	(3,478)	(2,736)	23,620	24,639
Losses and loss adjustment expenses paid:						
Current year	(11,573)	(11,178)	1,049	536	(10,524)	(10,642)
Prior years	(15,167)	(15,547)	2,451	2,500	(12,716)	(13,047)
Total paid	(26,740)	(26,725)	3,500	3,036	(23,240)	(23,689)
Acquisitions/(divestments) and transfers ¹	(18)	103	6	1	(12)	104
Foreign currency translation effects	(356)	2,114	61	(251)	(296)	1,863
As of December 31	68,069	68,086	(12,093)	(12,182)	55,976	55,903

¹ The 2010 net movement includes USD (2) million related to loss of control (see note 5).

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

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

Table 8.2 shows the development of reserves for losses and loss adjustment expenses during the year. The increase in total net reserves during the year included USD 1,367 million favorable development emerging from reserves established in prior years. Gross of reinsurance, the favorable development was USD 1,819 million. The reinsurers' share was USD 452 million, reflecting reduced cessions based on a re-estimation of ultimate gross losses. This favorable development was primarily attributable to the General Insurance business and breaks down into many individual movements by Business Division, country, line of business, and accident year, with the majority coming from liability lines.

In the Global Corporate division, favorable development of USD 443 million was approximately equally shared between North America and the rest of the world. In North America, favorable development arose from general liability, property, and auto liability, offset by adverse development in workers compensation. Outside North America, favorable development arose from employers liability and property in the UK, as well as many small releases in other lines of business and countries.

North America Commercial favorable development of USD 434 million arose mostly from specialties, program, middle market commercial and surety business. These favorable developments were partially offset by unfavorable development in workers compensation.

Europe General Insurance favorable development of USD 371 million resulted primarily from favorable experience in Switzerland, UK, Spain, and Portugal which was partially offset by adverse development of USD 155 million in Germany, in medical and professional liability. The remaining favorable development emerged from Group Reinsurance, International Markets, and the assumed business in Farmers Re Co, somewhat offset by adverse development at Centre.

Table 8.3

Development of insurance losses, net

in USD millions, as of December 31	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross reserves for losses and loss adjustment expenses	37,694	45,306	51,068	57,765	60,425	64,535	67,890	65,218	68,086	68,069
Reinsurance recoverable	(13,605)	(14,940)	(14,055)	(14,279)	(14,231)	(13,722)	(13,179)	(12,232)	(12,182)	(12,093)
Initial net reserves for losses and loss adjustment expenses	24,089	30,366	37,013	43,486	46,194	50,814	54,712	52,986	55,903	55,976
Cumulative paid as of December 31:										
<i>One year later</i>	(7,976)	(8,923)	(9,930)	(9,464)	(11,423)	(11,237)	(12,551)	(13,047)	(12,716)	
<i>Two years later</i>	(12,855)	(14,472)	(15,550)	(16,273)	(18,044)	(18,362)	(19,660)	(19,909)		
<i>Three years later</i>	(16,698)	(18,001)	(20,407)	(21,234)	(23,077)	(23,421)	(24,428)			
<i>Four years later</i>	(19,255)	(21,390)	(23,941)	(24,945)	(26,850)	(26,839)				
<i>Five years later</i>	(21,634)	(23,814)	(26,616)	(27,798)	(29,425)					
<i>Six years later</i>	(23,471)	(25,799)	(28,668)	(29,810)						
<i>Seven years later</i>	(24,849)	(27,442)	(30,245)							
<i>Eight years later</i>	(26,166)	(28,672)								
<i>Nine years later</i>	(27,105)									
Net reserves re-estimated as of December 31:										
<i>One year later</i>	26,908	32,239	38,977	43,627	45,976	49,594	53,441	51,927	54,537	
<i>Two years later</i>	28,471	34,471	40,413	45,006	45,827	48,642	52,559	50,645		
<i>Three years later</i>	30,636	36,118	42,004	45,325	45,297	48,127	51,872			
<i>Four years later</i>	31,784	37,691	42,254	45,294	45,249	47,814				
<i>Five years later</i>	33,326	37,880	42,470	45,604	45,153					
<i>Six years later</i>	33,799	38,282	43,017	45,682						
<i>Seven years later</i>	34,004	38,951	43,108							
<i>Eight years later</i>	34,716	39,086								
<i>Nine years later</i>	34,844									
Cumulative (deficiency)/ redundancy of net reserves	(10,755)	(8,720)	(6,095)	(2,196)	1,041	3,000	2,839	2,341	1,367	
Cumulative (deficiency)/ redundancy as a percentage of initial net reserves	(44.6%)	(28.7%)	(16.5%)	(5.1%)	2.3%	5.9%	5.2%	4.4%	2.4%	
Gross reserves re-estimated as of December 31, 2010	52,505	56,944	59,540	61,090	60,022	61,127	64,324	62,404	66,267	
Cumulative (deficiency)/ redundancy of gross reserves	(14,811)	(11,638)	(8,472)	(3,325)	403	3,408	3,566	2,814	1,819	
Cumulative (deficiency)/ redundancy as a percentage of initial gross reserves	(39.3%)	(25.7%)	(16.6%)	(5.8%)	0.7%	5.3%	5.3%	4.3%	2.7%	

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Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Group established in 2001 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. The net reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established. The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2010. It is the difference between the initial net reserve estimate and the last entry of the diagonal. Conditions and trends that have affected the development of reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results cannot be derived from the information presented in table 8.3.

Table 8.4

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

in USD millions	2010		2009	
	Gross	Net	Gross	Net
Asbestos				
As of January 1	3,604	2,998	3,001	2,523
Losses and loss adjustment expenses incurred	35	34	652	539
Losses and loss adjustment expenses paid	(138)	(90)	(299)	(281)
Foreign currency translation effects	(94)	(79)	251	217
As of December 31	3,408	2,863	3,604	2,998
Environmental				
As of January 1	280	242	332	277
Losses and loss adjustment expenses incurred	61	20	7	4
Losses and loss adjustment expenses paid	(51)	(38)	(61)	(40)
Foreign currency translation effects	1	–	1	1
As of December 31	290	223	280	242

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

Reserves for asbestos claims decreased by USD 196 million gross and USD 135 million net during 2010. This decrease was driven by the re-estimation of the ultimate liability for asbestos as well as the normal payout of claims. As a significant portion of the Group's reserves is held in British pounds, the strengthening of the U.S. dollar also impacted the decrease significantly.

Reserves for environmental claims increased by USD 10 million gross but decreased by USD 19 million net during 2010. The difference in gross and net movements is explained by the increase in ceded reserves, largely the result of the re-estimation of reserves in North America.

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

**Development of
future life
policyholders'
benefits**

Table 8.5

in USD millions	Gross		Ceded		Net	
	2010	2009	2010	2009	2010	2009
As of January 1	79,271	78,118	(2,199)	(2,056)	77,072	76,061
Premiums	9,447	10,252	(534)	(541)	8,913	9,711
Claims	(10,138)	(10,857)	378	391	(9,760)	(10,466)
Fee income and other expenses	(1,689)	(2,938)	118	240	(1,571)	(2,698)
Interest and bonuses credited to policyholders	2,650	2,752	(70)	(68)	2,580	2,683
Change in assumptions	234	(102)	(64)	(13)	170	(115)
Transfers ¹	1,291	(497)	(96)	–	1,194	(497)
(Decreases)/increases recorded in other comprehensive income	(8)	85	–	–	(8)	85
Foreign currency translation effects	(1,744)	2,459	45	(151)	(1,700)	2,308
As of December 31	79,315	79,271	(2,423)	(2,199)	76,891	77,072

¹ The 2010 net movement includes USD 2,730 million related to the transfer to other reserves categories (see note 1) and USD (1,508) million related to loss of control in Caixa Sabadell (see note 5).

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

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

The impact of changes in assumptions on net future life policyholders' benefits was USD 170 million and USD (115) million for the years ended December 31, 2010 and 2009, respectively. The net changes include the following significant movements:

- interest rate assumptions increased the benefits by USD 216 million in 2010 and reduced them by USD 11 million in 2009;
- expense assumptions increased the benefits by USD 4 million in 2010 and reduced them by USD 2 million in 2009;
- longevity assumptions increased the benefits by USD 1 million in 2010 and by USD 12 million in 2009;
- morbidity assumptions reduced the benefits by USD 7 million in 2010 and by USD 23 million in 2009;
- investment return assumptions reduced the benefits by USD 27 million in 2010 and increased by USD 133 million in 2009;
- modeling assumptions reduced the benefits by USD 10 million in 2010 and increased them by USD 118 million in 2009;
- change in accounting policy (see note 1) reduced the benefits by USD 316 million in 2009.

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Table 8.6

in USD millions, as of December 31		2010	2009
Policyholders' contract deposits and other funds gross	Annuities	1,293	2,760
	Universal life and other contracts	11,164	10,801
	Policyholder dividends	4,973	5,297
	Total	17,430	18,857

Table 8.7

in USD millions		Gross		Ceded		Net	
		2010	2009	2010	2009	2010	2009
Development of policyholders' contract deposits and other funds	As of January 1	18,857	17,047	(2,457)	(2,690)	16,400	14,357
	Premiums	2,028	1,667	(90)	(22)	1,938	1,645
	Claims	(1,861)	(2,056)	261	350	(1,601)	(1,706)
	Fee income and other expenses	(360)	(291)	14	4	(347)	(288)
	Interest and bonuses credited to policyholders	993	879	(82)	(90)	912	789
	Changes in assumptions	(3)	–	–	–	(3)	–
	Transfers ¹	(1,847)	1	100	–	(1,746)	1
	(Decrease)/increase recorded in other comprehensive income	(185)	1,045	–	–	(185)	1,045
	Foreign currency translation effects	(191)	566	7	(9)	(184)	557
	As of December 31	17,430	18,857	(2,246)	(2,457)	15,184	16,400

¹ The 2010 net movement includes USD (1,733) million related to the transfer from other reserves categories (see note 1) and USD (7) million related to loss of control in Caixa Sabadell (see note 5).

Table 8.8

in USD millions		Gross		Ceded		Net	
		2010	2009	2010	2009	2010	2009
Development of reserves for unit-linked contracts	As of January 1	58,204	47,297	–	–	58,204	47,297
	Premiums	8,377	8,192	(3)	(4)	8,374	8,188
	Claims	(6,629)	(6,407)	4	2	(6,625)	(6,405)
	Fee income and other expenses	(1,496)	(1,171)	(1)	1	(1,497)	(1,170)
	Interest and bonuses credited/(charged) to policyholders	5,395	6,616	–	–	5,395	6,616
	Transfers ¹	(143)	587	–	–	(143)	587
	Foreign currency translation effects	(1,922)	3,091	–	–	(1,922)	3,091
	As of December 31	61,786	58,204	–	–	61,786	58,204

¹ The 2010 net movement includes USD (12) million related to the transfer from other reserves categories (see note 1) and USD (160) million related to loss of control in Caixa Sabadell (see note 5).

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

Table 9.1

Table 9.1		2010	2009
Liabilities for investment contracts	in USD millions, as of December 31		
	Liabilities related to unit-linked investment contracts	44,941	40,143
	Liabilities related to investment contracts (amortized cost)	592	254
	Liabilities related to investment contracts with DPF	5,134	5,728
	Total	50,667	46,124

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

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

Table 9.2

Table 9.2		2010	2009
Development of liabilities for investment contracts	in USD millions		
	As of January 1	46,124	35,979
	Premiums	7,963	6,198
	Claims	(5,478)	(4,898)
	Fee income and other expenses	(692)	(513)
	Interest and bonuses charged/(credited) to policyholders	5,267	5,864
	Transfers ¹	(892)	–
	Increase/(decrease) recorded in other comprehensive income	(35)	28
	Foreign currency translation effects	(1,590)	3,465
	As of December 31	50,667	46,124

¹The 2010 movement includes USD (884) million related to the transfer to and from reserves for insurance contracts (see note 1).

10. Equity component relating to contracts with DPF

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

Table 10

Table 10		2010	2009
Development of the equity component relating to contracts with DPF	in USD millions		
	As of January 1	1,837	1,221
	Net unrealized (losses)/gains on investments	(39)	381
	Current period profit	194	192
	Foreign currency translation effects	176	44
	As of December 31	2,168	1,837

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11. Gross and ceded insurance revenues and expenses

in USD millions, for the years ended December 31		Gross		Ceded		Net	
		2010	2009	2010	2009	2010	2009
Losses and loss adjustment expenses		27,098	27,375	(3,478)	(2,736)	23,620	24,639
Life insurance death and other benefits		11,004	11,816	(456)	(460)	10,548	11,356
Change in future life policyholders' benefits		488	(887)	(172)	(5)	316	(892)
Total insurance benefits and losses		38,591	38,304	(4,106)	(3,201)	34,484	35,103

in USD millions, for the years ended December 31		Gross		Ceded		Net	
		2010	2009	2010	2009	2010	2009
Change in policyholders' contract deposits and other funds		809	483	(4)	–	805	484
Change in reserves for unit-linked products		5,287	6,911	–	–	5,287	6,911
Change in liabilities for investment contracts – unit-linked		4,830	5,623	–	–	4,830	5,623
Change in liabilities for investment contracts – other		215	206	–	–	215	206
Change in unit-linked liabilities related to UK capital gains tax		(337)	(364)	–	–	(337)	(364)
Total policyholder dividends and participation in profits		10,805	12,859	(4)	–	10,801	12,859

in USD millions, for the years ended December 31		Gross		Ceded		Net	
		2010	2009	2010	2009	2010	2009
Amortization of deferred acquisition costs		5,365	5,153	(449)	(394)	4,916	4,759
Amortization of deferred origination costs		119	110	–	–	119	110
Commissions and other underwriting and acquisition expenses ¹		3,859	3,863	(258)	(328)	3,601	3,534
Total underwriting and policy acquisition costs		9,343	9,125	(707)	(723)	8,636	8,403

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

in USD millions, for the years ended December 31		Gross		Ceded		Net	
		2010	2009	2010	2009	2010	2009
Change in reserves for unearned premiums		(1,018)	826	(208)	(80)	(1,227)	746

12. Deferred policy acquisition costs and deferred origination costs

Table 12.1

Development of deferred policy acquisition costs	in USD millions							
	General Insurance		Global Life		Other segments ¹		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
As of January 1	3,374	3,247	12,276	10,768	531	308	16,181	14,323
Acquisition costs deferred	2,939	3,012	1,780	1,793	815	1,403	5,533	6,208
Amortization	(2,866)	(2,965)	(873)	(614)	(1,176)	(1,180)	(4,916)	(4,759)
Amortization charged/ (credited) to other comprehensive income	–	–	(74)	(291)	–	1	(74)	(290)
Transfers ²	(1)	–	–	(28)	–	–	(1)	(28)
Foreign currency translation effects	26	80	(424)	648	(1)	(1)	(398)	726
As of December 31	3,472	3,374	12,686	12,276	169	531	16,326	16,181

¹ Net of eliminations from inter-segment transactions.

² The 2010 movement represents the impact of loss of control in Caixa Sabadell (see note 5).

Table 12.2

Development of deferred origination costs	in USD millions	
	2010	2009
As of January 1	856	770
Origination costs deferred	142	96
Amortization	(119)	(110)
Transfers	–	28
Foreign currency translation effects	(13)	71
As of December 31	866	856

13. Administrative and other operating expenses

Table 13

Administrative and other operating expenses	in USD millions, for the years ended December 31	
	2010	2009
Wages and salaries	2,918	2,908
Other employee benefits	522	566
Amortization and impairments of intangible assets	882	647
Depreciation and impairments of property and equipment	205	231
Rent, leasing and maintenance	457	398
Marketing costs	213	315
Life renewal commission	348	318
Asset and other non-income taxes	44	34
IT costs	701	734
Litigation and settlement costs	646	60
Restructuring costs	111	97
Foreign currency translation	(159)	49
Other	1,089	739
Total	7,976	7,098

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

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14. Farmers management fees and other related revenues

Table 14

Farmers management fees and other related revenues

in USD millions, for the years ended December 31		2010	2009
Farmers management fees and other related revenues		2,778	2,690

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

FGI has historically charged a lower management fee than the amount allowed by contract. The range of fees has varied by line of business over time and from year to year. The gross earned premiums of the Farmers Exchanges were USD 18,311 million and USD 17,885 million for the years ended December 31, 2010 and 2009, respectively.

15. Receivables

Table 15.1

Receivables

in USD millions, as of December 31		2010	2009
Financial instruments			
Receivables from policyholders		3,042	3,415
Receivables from insurance companies, agents, brokers and intermediaries		5,343	5,803
Receivables arising from ceded reinsurance		1,195	1,092
Other receivables		3,937	3,270
Allowance for impairments ¹		(323)	(436)
Non-financial instruments			
Current tax receivables		740	638
Total		13,935	13,782

¹ Allowance for impairments includes USD 61 million and USD 181 million as of December 31, 2010, and 2009, respectively, for receivables arising from ceded reinsurance.

Receivables are generally settled within one year.

16. Mortgage loans given as collateral and collateralized loans

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

Impairment charges of USD 1 million on mortgage loans given as collateral were recorded in income for the year ended December 31, 2009.

The table below shows the maturity schedule of collateralized loans as of December 31, 2010 and 2009, respectively.

in USD millions, as of December 31	2010		2009	
	Carrying value ¹	Undiscounted cash flow ²	Carrying value ¹	Undiscounted cash flow ²
< 1 year	391	389	134	138
1 to 2 years	145	145	546	560
2 to 3 years	9	9	178	182
3 to 4 years	52	51	92	94
4 to 5 years	12	12	78	80
> 5 years	133	133	74	76
Total	743	739	1,102	1,131

¹ Allocation to the time bands is based on the expected maturity date.

² Allocation to the time bands is based on the earliest contractual maturity.

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17. Property and equipment

Table 17.1

Property and equipment – current period

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

Table 17.2

Property and equipment – prior period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2009	359	1,398	438	767	735	3,697
Less: accumulated depreciation/impairments	–	(547)	(351)	(548)	(361)	(1,808)
Net carrying value as of January 1, 2009	359	851	86	219	374	1,889
Additions and improvements	–	38	48	156	161	403
Disposals	(2)	(8)	(3)	(7)	(29)	(49)
Transfers	(6)	(50)	1	3	(71)	(123)
Depreciation and impairments	–	(36)	(25)	(108)	(76)	(245)
Foreign currency translation effects	13	32	4	4	13	67
Net carrying value as of December 31, 2009	364	828	111	267	371	1,942
Plus: accumulated depreciation/impairments	–	422	364	604	422	1,811
Gross carrying value as of December 31, 2009	364	1,249	475	871	794	3,754

The fire insurance value of the Group's own-use property and equipment totaled USD 3,344 million and USD 3,473 million as of December 31, 2010 and 2009, respectively.

18. Goodwill and other intangible assets

Table 18.1

Intangible assets –
current period

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

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

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

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

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

Table 18.2

Intangible assets
by segment –
current period

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

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Table 18.3

Intangible assets –
prior period

in USD millions

	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2009	1,696	2,617	3,075	1,025	2,791	247	11,451
Less: accumulated amortization/impairments	(19)	(1,364)	(42)	–	(1,635)	(80)	(3,141)
Net carrying value as of January 1, 2009	1,677	1,252	3,032	1,025	1,156	166	8,310
Additions and transfers	548	(8)	262	–	692	(21)	1,473
Divestments and transfers	–	–	–	–	(1)	–	(1)
Amortization	–	(51)	(177)	–	(311)	(14)	(553)
Amortization charged to other comprehensive income	–	(65)	–	–	–	–	(65)
Impairments	(12)	(30)	(29)	–	(15)	(8)	(94)
Foreign currency translation effects	85	39	86	–	47	15	272
Net carrying value as of December 31, 2009	2,297	1,137	3,174	1,025	1,569	139	9,342
Plus: accumulated amortization/impairments	34	1,612	251	–	1,861	85	3,844
Gross carrying value as of December 31, 2009	2,331	2,749	3,426	1,025	3,430	224	13,186

As of December 31, 2009, the intangible assets related to non-controlling interests were USD 224 million from present value of future profits (PVFP) of acquired insurance contracts, USD 1,484 million from distribution agreements and USD 8 million from software.

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

Impairment charges of USD 94 million were recorded in income comprising impairments on goodwill of USD 12 million mainly related to the Spanish General Insurance operations, USD 30 million of PVFP in the Spanish Life operations and USD 29 million for distribution agreements related to Italian Life operations as well as USD 15 million of software mainly related to Banking operations.

Table 18.4

Intangible assets
by segment –
prior periodin USD millions, as of December 31,
2009

	Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance	1,029	–	705	–	607	108	2,448
Global Life	442	1,137	2,470	–	363	31	4,443
Farmers	821	–	–	1,025	372	–	2,218
Other Operating Businesses	5	–	–	–	218	–	223
Non-Core Businesses	–	–	–	–	9	–	9
Net carrying value as of December 31, 2009	2,297	1,137	3,174	1,025	1,569	139	9,342

19. Other assets

Other assets	in USD millions, as of December 31		
		2010	2009
	Other financial assets:		
	Derivative assets	1,777	1,338
	Other assets	137	199
	Other non-financial assets:		
	Accrued premiums	748	785
	Prepaid expenses	254	286
	Prepaid insurance benefits	441	369
	Other assets	385	350
	Total other assets	3,741	3,327

The undiscounted amounts of the other financial assets as of December 31, 2010 and 2009 are not materially different from the carrying amounts.

20. Other liabilities

Other liabilities	in USD millions, as of December 31		
		2010	2009
	Other financial liabilities:		
	Amounts due to reinsurers, agents and other insurance companies	2,041	1,996
	Amounts due to investment brokers	1,059	853
	Amounts due to life policyholders	668	561
	Liabilities for cash collateral received for securities lending	485	508
	Derivative liabilities	1,005	660
	Deposits from banking activities	1,559	2,614
	Liabilities for defined benefit plans	1,779	1,891
	Other liabilities for employee benefit plans	112	101
	Other liabilities	6,583	6,616
	Other non-financial liabilities:		
	Current tax payables	850	983
	Restructuring provisions	155	119
	Premium prepayments and other advances	957	828
	Other liabilities	1,141	567
	Total other liabilities	18,396	18,299

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Table 20.2 shows the maturity schedule of other financial liabilities as of December 31, 2010 and 2009, respectively.

Maturity schedule – other financial liabilities ¹	in USD millions, as of December 31		2010		2009	
			Carrying value ²	Undiscounted cash flow ³	Carrying value ²	Undiscounted cash flow ³
	< 1 year		10,842	10,853	12,023	12,031
1 to 2 years		748	775	208	213	
2 to 3 years		301	313	552	559	
3 to 4 years		283	292	278	286	
4 to 5 years		172	180	81	93	
> 5 years		1,167	2,220	768	1,732	
Total		13,513	14,634	13,910	14,913	

¹ Excluding liabilities for defined benefit plans.

² Allocation to the time bands is based on the expected maturity date.

³ Allocation to the time bands is based on the earliest contractual maturity.

Restructuring provisions	in USD millions		2010	2009
	As of January 1		119	88
Provisions made during the period		111	101	
Provisions used during the period		(77)	(86)	
Provisions reversed during the period		–	(3)	
Foreign currency translation effects		2	4	
Net changes due to acquisitions/divestments		–	17	
Other changes		–	(1)	
As of December 31		155	119	

During the year ended December 31, 2010, the Group entered into several restructuring programs, recording a total charge to income of USD 62 million. A further USD 49 million was recorded in respect of restructuring programs initiated in prior years. The largest restructuring program was initiated as part of the new strategy of the Group's General Insurance segment. The UK Direct operations are now integrated into the UK business to create operational synergies and the focus of the Direct insurance efforts are on Germany, Italy and Switzerland. The related restructuring costs amount to USD 20 million. In addition, the Group recorded USD 114 million of software impairments as outlined in note 18.

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

21. Income taxes

Table 21.1			
in USD millions, for the years ended December 31		2010	2009
Income tax expense – current/deferred split	Current	1,128	968
	Deferred	227	585
	Total income tax expense/(benefit)	1,355	1,553

Table 21.2			
in USD millions, for the years ended December 31		2010	2009
Income tax expense – policyholder/shareholder attribution	Total income tax expense/(benefit) attributable to policyholders	462	387
	Total income tax expense/(benefit) attributable to shareholders	893	1,167
	Total income tax expense/(benefit)	1,355	1,553

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.

Table 21.3					
in USD millions, for the nine months ended September 30		Rate	2010	Rate	2009
Expected and actual income tax expense	Net income before income taxes		4,868		5,537
	Less: income tax (expense)/benefit attributable to policyholders		(462)		(387)
	Net income before income taxes attributable to shareholders		4,406		5,150
	Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	969	22.0%	1,133
	Increase/(reduction) in taxes resulting from:				
	<i>Tax rate differential in foreign jurisdictions</i>		55		220
	<i>Tax exempt and lower taxed income</i>		(119)		(53)
	<i>Non-deductible expenses</i>		63		79
	<i>Tax losses previously unrecognized or no longer recognized</i>		33		40
	<i>Prior year adjustments and other</i>		(108)		(252)
	Actual income tax expense attributable to shareholders	20.3%	893	22.7%	1,167
	Plus: income tax expense/(benefit) attributable to policyholders		462		387
	Actual income tax expense/(benefit)	27.8%	1,355	28.1%	1,553

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

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Table 21.4			
in USD millions, as of December 31			
		2010	2009
Current tax receivables and payables	Current tax receivables	740	638
	Current tax payables	(850)	(983)
	Net current tax payables	(110)	(345)

Table 21.5			
in USD millions, as of December 31			
		2010	2009
Deferred tax assets and liabilities	Deferred tax assets	2,067	2,421
	Deferred tax liabilities	(4,585)	(4,445)
	Net deferred tax liabilities	(2,518)	(2,023)

Table 21.6			
in USD millions			
		2010	2009
Development of net deferred tax liabilities	As of January 1	(2,023)	(108)
	Net change recognized in the income statement	(227)	(585)
	Net change recognized in equity	(488)	(1,223)
	Net changes due to acquisitions/(divestments)	198	11
	Foreign currency translation effects	22	(118)
	As of December 31	(2,518)	(2,023)

The cumulative amount of deferred tax credited to shareholders' equity, net of foreign currency translation effects, amounted to USD 28 million and USD 516 million for the years ended December 31, 2010 and 2009, respectively.

USD 831 million increase in deferred tax liabilities resulted primarily from the acquisitions in 2008 and the divestments in 2010, of which USD 387 million relates to non-controlling interests.

Table 21.7			
in USD millions, as of December 31			
		2010	2009
Deferred taxes – policyholder/ shareholder attribution	Net deferred tax assets/(liabilities) attributable to policyholders	(473)	(74)
	Net deferred tax assets/(liabilities) attributable to shareholders	(2,045)	(1,950)
	Net deferred tax liabilities	(2,518)	(2,023)

**Deferred tax
assets/(liabilities)
analysis
by source**

Table 21.8

in USD millions, as of December 31

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	26	(618)	31	(516)
Depreciable and amortizable assets	33	(38)	22	(31)
Life policyholders' benefits and deposits ¹	34	(13)	17	(7)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	321	(358)	316	(365)
Accruals & deferred income	207	(4)	197	–
Reserves for losses and loss adjustment expenses	511	(2)	489	–
Reserves for unearned premiums	720	–	704	–
Pensions and other employee benefits	381	–	376	–
Other assets/liabilities	637	(207)	769	(54)
Tax loss carryforwards	505	–	475	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,374	(1,241)	3,397	(973)
Valuation allowance	(66)	–	(2)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,308	(1,241)	3,395	(973)
Deferred tax assets	2,067		2,421	
Deferred acquisition and origination costs	90	(2,784)	56	(2,762)
Depreciable and amortizable assets	147	(2,023)	101	(2,116)
Life policyholders' benefits and deposits ¹	808	(722)	529	(741)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	249	(1,019)	344	(580)
Accruals & deferred income	120	(169)	105	(123)
Reserves for losses and loss adjustment expenses	78	(335)	339	(478)
Reserves for unearned premiums	34	(96)	59	(64)
Deferred front-end fees	717	–	747	–
Pensions and other employee benefits	344	(43)	366	(32)
Other assets/liabilities	829	(972)	930	(1,345)
Tax loss carryforwards	173	–	244	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,589	(8,162)	3,819	(8,241)
Valuation allowance	(11)	–	(23)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,578	(8,162)	3,796	(8,241)
Deferred tax liabilities		(4,585)		(4,445)
Net deferred tax liabilities		(2,518)		(2,023)

¹ Includes reserves for unit-linked contracts.

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

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

Table 21.9

Tax losses carryforwards and tax credits

in USD millions, as of December 31	2010	2009
For which deferred tax assets have been recognized, expiring		
< 5 years	358	160
5 to 20 years	1,360	1,290
> 20 years or with no time limitation	203	1,095
Subtotal	1,920	2,545
For which deferred tax assets have not been recognized, expiring		
5 to 20 years	180	178
> 20 years or with no time limitation	436	219
Subtotal	616	397
Total	2,536	2,942

The tax rates applicable to tax losses for which a deferred tax asset has not been recognized are 22.4 percent and 24.0 percent for the years 2010 and 2009, respectively.

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

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income projections and believes that the carrying values of the deferred tax assets as of December 31, 2010, are recoverable.

22. Debt

Table 22.1

in USD millions, as of		12/31/10	12/31/09
Debt			
Debt related to capital markets			
Zurich Capital Markets	Various debt instruments payable within 1 year	400	25
Debt related to capital markets		400	25
Senior debt			
Zurich Finance (USA), Inc.	3.50% CHF 300 bond, due November 2011 ^{1,6}	322	291
	4.50% EUR 1,000 bond, due September 2014 ^{2,6}	1,353	1,443
	4.875% EUR 800 bond, due April 2012 ⁶	1,069	1,143
	6.50% EUR 600 bond, due October 2015 ^{3,6}	801	857
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 bond, due September 2013 ^{5,6}	765	747
Zurich Insurance Company Ltd	3.875% CHF 1,000 bond, due July 2011	1,071	965
	3.75% CHF 500 bond, due September 2013 ⁶	531	478
	Various debt instruments payable within 1 year	–	200
Other	Various debt instruments payable within 1 year	–	5
	Various debt instruments payable in more than 1 year	141	149
Senior debt		6,053	6,277
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 capital notes, undated ⁶	190	203
	7.5% EUR 425 bond, due July 2039 ⁶	564	603
	4.25% CHF 700 bond, undated ⁶	736	
Zurich Finance (UK) plc	6.625% GBP 450 bond, undated notes ^{4,6}	692	717
Zurich Finance (USA), Inc.	5.75% EUR 500 bond, due October 2023 ⁶	661	707
	4.5% EUR 500 bond, due June 2025 ^{5,6}	696	730
ZFS Finance (USA) Trust I	Series I 6.15% USD 600 ECAPS, due December 2065	–	567
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 ECAPS, due December 2065	673	672
ZFS Finance (USA) Trust III	Series III Floating Rate USD 400 ECAPS, due December 2065	–	200
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 Trust Preferred Securities, due May 2062	250	249
ZFS Finance (USA) Trust V	Series V 6.5% USD 1,000 Trust Preferred Securities, due May 2067	497	496
Other	Various debt instruments payable in more than 1 year	44	22
Subordinated debt		5,004	5,167
Total senior and subordinated debt		11,057	11,444
Total debt		11,457	11,469

¹ The bond is economically hedged, but hedge accounting treatment has not been applied.

² The bond is part of a qualifying cash flow hedge (80% of the total) and fair value hedge (20% of the total).

³ The bond is part of a qualifying cash flow hedge.

⁴ The holders of these notes benefit from the Replacement Capital Covenant which states that if Series IV and V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trusts IV and V, are called before 2042 and 2047 respectively, the Group will issue a replacement debt instrument with terms and provisions that are as or more equity-like than the replaced notes.

⁵ These bonds are part of qualifying fair value hedges.

⁶ Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).

None of the debt instruments listed above were in default as of December 31, 2010 and 2009.

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Debt related to capital markets

Debt related to capital markets increased by USD 375 million from USD 25 million as of December 31, 2009 to USD 400 million as of December 31, 2010 due to an increase in commercial paper issuance.

Deposits previously presented under debt related to banking activities (USD 814 million as of December 31, 2009) are now presented under "other liabilities" (see note 1).

Senior and subordinated debt

To facilitate the issuance of debt, the Group has in place a Euro Medium Term Note Programme (EMTN Programme) allowing for the issuance of senior and subordinated notes up to a maximum of USD 15 billion. All issuances under this programme are either issued or guaranteed by Zurich Insurance Company Ltd. The Group has also issued debt instruments outside this programme when deemed appropriate.

i) Senior debt

Senior debt decreased from USD 6.3 billion to USD 6.1 billion primarily due to the USD 200 million repayment of debt drawn under a credit facility for the sole purpose of financing surplus notes issued by the Leschi Life Assurance Company (Leschi), which expired in June 2010.

ii) Subordinated debt

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

Subordinated debt decreased from USD 5.2 billion as of December 31, 2009 to USD 5.0 billion as of December 31, 2010, mainly as a result of the strengthening of the U.S. dollar against the euro and British pound, as the redemption of Enhanced Capital Advantaged Preferred Securities ("ECAPS") was almost offset by the issuance of subordinated notes under the EMTN Programme.

On November 26, 2010, Zurich Insurance Company Ltd issued CHF 700 million of subordinated notes under the EMTN Programme. These subordinated bonds carry a fixed annual coupon of 4.25%, are first callable in 2016 and are undated.

On December 15, 2010, ZFS Finance (USA) Trust I and ZFS Finance (USA) Trust III have exercised their option to early redeem at par together with accrued interest USD 600 million of Series I Fixed/Adjustable Rate ECAPS and USD 400 million of Series III Floating Rate ECAPS, which were issued in December 2005. As a result of previous buy back activities USD 32 million of Series I Fixed/Adjustable Rate ECAPS and USD 200 million of Series III Floating Rate ECAPS issued in December 2005 were already held by the Group, resulting in a net repayment of USD 768 million.

Description and features of significant subordinated debt	Table 22.2		
	Description	Coupon conditions	Call/ redemption date
12.00% EUR 143 bond, undated notes	12.00% payable annually up to July 15, 2014 and then reset quarterly to 3-month EURIBOR plus 10.33%.	Quarterly on or after July 15, 2014	Redeemable in whole at par plus any accrued interest.
7.5% EUR 425 bond, due July 2039	7.5% payable annually up to July 24, 2019 and then reset quarterly to 3-month EURIBOR plus 5.85%.	Quarterly on or after July 24, 2019	Redeemable in whole or in part at par plus any accrued interest.
4.25% CHF 700 bond, undated 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.
6.625% GBP 450 bond, undated notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest. ¹	Every five years on or after October 2, 2022	Redeemable in whole every five years at par plus any accrued interest.
5.75% EUR 500 bond, due October 2023	5.75% payable annually up to October 2, 2013 and then reset quarterly to 3-month EURIBOR plus 2.67%.	Quarterly on or after October 2, 2013	Redeemable in whole at par plus any accrued interest.
4.5% EUR 500 bond, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015	Redeemable in whole at par plus any accrued interest.
Series II 6.45% Fixed/Adjustable Rate USD 700 ECAPS, due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%. ²	Quarterly on or after June 15, 2016	Redeemable in whole or in part at par plus any accrued interest.
Series IV 5.875% USD 500 Fixed/Floating Trust Preferred Securities, due May 2062	5.875% payable semi-annually until May 9, 2012 and then reset quarterly to 3-month LIBOR plus 1.815%.	Quarterly on or after May 9, 2012	Redeemable in whole or in part at par plus any accrued interest.
Series V 6.5% USD 1,000 Fixed/Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017	Redeemable in whole or in part at par plus any accrued interest.

¹ Reset rate of interest is equal to the gross redemption yield on the benchmark five-year Gilt as determined by the Calculation Bank, plus 2.85% per annum.

² Adjustable Rate is equal to the greatest of (i) the 3-month LIBOR Rate; (ii) the 10-year Treasury CMT (Constant Maturity Treasury) Rate; and (iii) the 30-year Treasury CMT Rate, subject to a maximum under (ii) and (iii) of 13.25% Series I and 13% for Series II.

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Table 22.3

Maturity schedule of outstanding debt

in USD millions, as of	12/31/10		12/31/09	
	Carrying value	Undiscounted cash flow	Carrying value	Undiscounted cash flow
< 1 year	1,793	2,355	230	830
1 to 2 years	1,080	1,603	1,272	1,872
2 to 3 years	1,297	1,749	1,142	1,720
3 to 4 years	1,388	1,797	1,235	1,731
4 to 5 years	919	1,273	1,448	1,890
5 to 10 years	–	1,278	975	2,456
> 10 years	4,981	6,805	5,167	7,265
Total	11,457	16,861	11,469	17,765

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/redemption dates, refer to table 22.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 22.3. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of December 31, 2010 and December 31, 2009, respectively. All debt is assumed to mature within 20 years of the balance sheet date the latest without refinancing. Floating interest rates are assumed to remain constant as of December 31, 2010 and December 31, 2009, respectively. The aggregated cash flows are translated into USD at end-of-period rates.

Table 22.4

Interest expense on debt

in USD millions, for the years ended December 31	2010	2009
Debt related to capital markets	6	35
Senior debt	248	215
Subordinated debt	302	305
Total	556	555

Interest expense on debt

In aggregate, interest expense on debt remained stable in 2010 compared with 2009. The change in interest expense on debt related to capital markets and on senior debt is related to lower interest rates and foreign exchange fluctuations.

Credit facilities

The Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in September 2012. Zurich Insurance Company Ltd and Farmers Group, Inc. are guarantors of the facility and can draw up to USD 2.75 billion and USD 250 million, respectively. No borrowings were outstanding under this facility as of December 31, 2010 or December 31, 2009.

In addition, Zurich Insurance Company Ltd has access to revolving credit facilities totaling USD 441 million, which will expire in June and July 2013. As of December 31, 2010 no borrowings have been drawn under these facilities.

Dunbar Bank and Zurich Bank have access to various committed credit facilities totaling GBP 105 million and GBP 165 million, respectively. As of December 31, 2010 no borrowings were outstanding under these facilities (GBP 50 million had been drawn as of December 31, 2009).

23. Shareholders' equity

Table 23.1

Share capital	Share capital in CHF	Number of shares	Par value in CHF
Issued share capital			
As of December 31, 2008	14,212,262	142,122,620	0.10
New shares issued from authorized capital in 2009	480,000	4,800,000	0.10
New shares issued from contingent capital in 2009	55,045	550,448	0.10
As of December 31, 2009	14,747,307	147,473,068	0.10
Share capital reduction as approved by the Annual General Meeting in 2010	(183,640)	(1,836,404)	0.10
New shares issued from contingent capital in 2010	95,023	950,232	0.10
As of December 31, 2010	14,658,690	146,586,896	0.10
Authorized, contingent and issued share capital			
As of December 31, 2009	16,531,690	165,316,899	0.10
As of December 31, 2010	17,129,526	171,295,259	0.10

a) Issued share capital

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

At the Annual General Meeting on April 2, 2009, the shareholders approved an increase in both authorized and contingent share capital to a new maximum of CHF 1,000,000 each, allowing for enhanced financial flexibility of the company for future capital management. On April 17, 2009, Zurich Financial Services Ltd placed 4,800,000 new shares issued under its authorized share capital and 1,914,096 existing treasury shares, bought back under the share buy-back program authorized in 2008, with institutional investors via an accelerated bookbuild. This capital increase reduced the authorized capital to CHF 520,000. The proceeds from the accelerated bookbuild were used in connection with the funding of the 21st Century acquisition completed on July 1, 2009. During the year 2009, a total of 550,448 shares were issued to employees from contingent capital.

b) Authorized share capital

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

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

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

c) Contingent share capital

Capital market instruments and option rights to shareholders

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

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connected with conversion and/or option rights, the pre-emptive rights of the shareholders will be excluded. The current owners of conversion and/or option rights shall be entitled to subscribe for the new shares. The conversion and/or option conditions are to be determined by the Board.

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

Employee participation

On January 1, 2009, the contingent share capital, to be issued to employees of Zurich Financial Services Ltd and Group companies, amounted to CHF 319,428 or 3,194,279 fully paid registered shares with a nominal value of CHF 0.10 each. On January 1, 2010, the contingent share capital, to be issued to employees of Zurich Financial Services Ltd and Group companies, amounted to CHF 264,383 or 2,643,831 fully paid registered shares with a nominal value of CHF 0.10 each. At the Annual General Meeting on March 30, 2010, the shareholders approved the proposed increase of the contingent share capital for the issuance of new shares for employees of the Group to a new maximum of CHF 500,000. This increase was approved and registered with the Commercial Register on April 1, 2010.

During 2010 and 2009, 950,232 and 550,448 shares, respectively, were issued to employees from contingent share capital under the program described above. Of the total 950,232 registered shares issued to employees during the year 2010, 658,595 shares were issued in the period from January 1, 2010 to March 31, 2010 and 291,637 registered shares were issued as from April 1, 2010 to December 31, 2010. As a result, on December 31, 2010 and 2009, respectively, the remaining contingent share capital, which can be issued to employees of Zurich Financial Services Ltd and its subsidiaries, amounted to CHF 470,836 and CHF 264,383 or 4,708,363 and 2,643,831 fully paid registered shares, respectively, with a nominal value of CHF 0.10 each. Pre-emptive rights of the shareholders, as well as the right for advance subscription, are excluded. The issuance of shares or respective option rights to employees is subject to one or more regulations to be issued by the Board of Directors and take into account performance, functions, levels of responsibility and criteria of profitability. Shares or option rights may be issued to the employees at a price lower than that quoted on the stock exchange.

d) Preferred securities

Table 23.2

Preferred securities	Preferred securities in USD	Number of securities	Par value in USD
As of December 31, 2008 ¹	575,000,000	575,000	1,000
As of December 31, 2009 ¹	575,000,000	575,000	1,000
Preferred securities bought back by group companies ²	(99,390,000)	(99,390)	1,000
As of December 31, 2010 ¹	475,610,000	475,610	1,000

¹ The amount is gross of issuance costs of USD 14 million as of December 31, 2010, 2009 and 2008.

² The amount shows the nominal amount of preferred securities bought back by group companies. The respective movement in the balance sheet deviates from this amount by USD 14 million, representing the gain on this transaction which has been recognized within the same line item.

In February 2001, the Group placed six series of Trust Capital Securities (Zurich RegCaPS) for a total amount of USD 1,125 million (USD 1,096 million net of issuance costs) with a limited number of qualified institutional and corporate U.S. investors. The securities, which were issued under Rule 144A in the U.S., are perpetual, non-cumulative and have a par value of USD 1,000 each. They have no voting rights, except in certain specified circumstances and are linked to Farmers Group, Inc. Class C shares. On March 30, 2006, April 11, 2006 and April 18, 2008, the Group redeemed the Series I, III and IV of the Zurich RegCaPS, respectively. The liquidation amounts totaled USD 550 million in aggregate. Of the remaining series totaling USD 575 million, one has a fixed rate coupon of 6.58 percent and two have floating rate coupons at LIBOR +71 basis points. These coupon rates step up after the first call dates. In the course of 2010, the Group repurchased but not retired securities of the Series V in the total amount of USD 46.5

million and of the Series VI in the total amount of USD 52.89 million. The Group has the option to call all outstanding securities in 2011.

e) Additional paid-in capital

This reserve is not ordinarily available for distribution.

f) Treasury shares

Table 23.3

Treasury shares	number of shares, as of December 31	
	2010	2009
Treasury shares	1,399,080	3,269,338

Treasury shares comprise shares acquired in the market, primarily held to cover employee and share option plans. At the end of 2009 treasury shares also included the remaining shares repurchased under the share buy-back program 2008. The number of treasury shares amounted to 1,399,080 and 3,269,338 as of December 31, 2010 and 2009, respectively.

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

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

At the Annual General Meeting of March 30, 2010, the shareholders approved the destruction of the remaining 1,836,404 shares from the 2008 share buy-back program. Since their re-dedication in March 2009, these shares were held as treasury shares for use in connection with the funding of potential acquisitions in the future or for employee share-based compensation plans. The destruction of the remaining 1,836,404 shares was effective June 15, 2010.

g) Earnings per share

Table 23.4

Earnings per share	for the years ended December 31			
	Net income attributable to common shareholders (in USD millions) ¹	Weighted average number of shares	Per share (USD)	Per share (CHF) ²
2010				
Basic earnings per share	3,422	144,844,915	23.63	24.57
Effect of potentially dilutive shares related to share-based compensation plans		1,142,920	(0.18)	(0.19)
Diluted earnings per share	3,422	145,987,835	23.44	24.38
2009				
Basic earnings per share	3,943	141,943,376	27.78	30.09
Effect of potentially dilutive shares related to share-based compensation plans		1,023,350	(0.20)	(0.22)
Diluted earnings per share	3,943	142,966,726	27.58	29.88

¹ Excludes the net income attributable to preferred shareholders of USD 11 million and USD 19 million for the year ended December 31, 2010 and 2009, respectively.

² The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the years ended December 31, 2010 and 2009, respectively.

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

24. Employee benefits

The Group had 54,934 and 56,668 employees (full-time equivalents) as of December 31, 2010 and 2009, respectively. Personnel and other related costs incurred for the year ended December 31, 2010 and 2009, were USD 5,257 million and USD 5,399 million, including wages and salaries of USD 4,346 million and USD 4,423 million, respectively.

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

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

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

a) Defined benefit plans

Defined benefit pension plans

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

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

For the defined benefit pension plans, total contributions to funded pension plans and benefit payments by the Group are currently estimated at USD 496 million for 2011 compared with USD 456 million estimated in the previous year for 2010. The actual amounts may differ.

Other defined post-employment benefits

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

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

Status of funded defined benefit plans	in USD millions, as of December 31									
	Defined benefit pension plans					Other defined post-employment benefits				
	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
Present value of funded obligations	(14,978)	(13,966)	(12,680)	(13,653)	(12,190)	–	(70)	(93)	(66)	(70)
Fair value of plan assets	13,791	12,622	10,879	13,285	11,071	–	–	–	5	10
Funded status	(1,186)	(1,344)	(1,801)	(368)	(1,119)	–	(70)	(92)	(61)	(60)
Unrecognized past service cost	(1)	–	(1)	–	2	–	–	–	–	–
Cumulative impact of asset ceiling	(3)	(15)	(7)	(62)	–	–	–	–	–	–
Liability – funded obligations	(1,190)	(1,359)	(1,808)	(430)	(1,117)	–	(70)	(92)	(61)	(60)

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

Status of unfunded defined benefit plans	in USD millions, as of December 31									
	Defined benefit pension plans					Other defined post-employment benefits				
	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
Present value of unfunded obligations	(260)	(230)	(210)	(207)	(985)	(295)	(205)	(183)	(208)	(196)
Unrecognized past service cost	(10)	–	–	–	–	(23)	(28)	(1)	(2)	(1)
Liability – unfunded obligations	(270)	(229)	(209)	(207)	(985)	(318)	(234)	(184)	(210)	(197)

Status of funded and unfunded defined benefit plans	in USD millions, as of December 31									
	Defined benefit pension plans					Other defined post-employment benefits				
	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
Liability	(1,460)	(1,588)	(2,017)	(637)	(2,101)	(319)	(303)	(277)	(271)	(256)

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Expense recognized in income	in USD millions, as of December 31	Defined benefit pension plans		Other defined post-employment benefits	
		2010	2009	2010	2009
		Current service cost	(269)	(298)	(9)
Interest cost	(694)	(685)	(15)	(16)	
Expected return on plan assets	722	619	–	–	
Past service cost	(12)	(7)	5	9	
Gains on curtailment or settlement	49	2	–	–	
Net pension expense		(205)	(369)	(19)	(14)

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

Fair value of assets held in funded defined benefit plans	in USD millions, as of December 31	Defined benefit pension plans	
		2010	2009
		Mortgage loans	441
Cash and cash equivalents	236	181	
Equity securities	3,903	3,598	
Debt securities	8,410	7,740	
Real estate	795	701	
Other assets ¹	6	6	
Total		13,791	12,622

¹ UK annuity policies.

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

Movement in funded and unfunded defined benefit plan obligation	in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
		2010	2009	2010	2009
		Benefit obligation as of January 1	(14,196)	(12,890)	(275)
Current service cost	(269)	(298)	(9)	(7)	
Past service cost including plan amendments	(1)	(9)	–	37	
Interest cost	(694)	(685)	(15)	(16)	
Actuarial gain/(loss) included in other comprehensive income	(598)	12	(4)	(7)	
Employee contributions	(43)	(42)	(5)	(4)	
Effect of curtailments or settlements	104	15	–	–	
Benefits paid	539	526	20	17	
Effects of business combinations and other transfers	–	(53)	–	(12)	
Foreign currency translation effects	(81)	(771)	(7)	(7)	
Benefit obligation as of December 31		(15,238)	(14,196)	(296)	(275)

Table 24.7

Movement in fair value of plan assets – funded plans	in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
		2010	2009	2010	2009
	Fair value of plan assets as of January 1	12,622	10,879	–	–
	Expected return on plan assets	722	619	–	–
	Actuarial gain/(loss) included in other comprehensive income	388	318	–	–
	Employer contributions	532	528	15	13
	Employee contributions	43	42	5	4
	Benefits paid	(539)	(526)	(20)	(17)
	Effect of curtailments or settlements	(56)	(13)	–	–
	Effects of business combinations and other transfers	–	61	–	–
	Foreign currency translation effects	79	713	–	–
	Fair value of plan assets as of December 31	13,791	12,622	–	–

The actual returns on defined benefit pension plan assets for the years ended December 31, 2010 and 2009 were gains of USD 1,110 million and USD 937 million, respectively.

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

Table 24.8

Movement in liability for funded and unfunded plans	in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
		2010	2009	2010	2009
	Liability as of January 1	(1,588)	(2,017)	(303)	(277)
	Current year expense	(205)	(369)	(19)	(14)
	Contributions paid	532	528	15	13
	Change in liability due to asset ceiling	11	(7)	–	–
	Actuarial gain/(loss) included in other comprehensive income	(210)	329	(4)	(7)
	Effects of business combinations and other transfers	–	(1)	–	2
	Foreign currency translation effects	(1)	(51)	(7)	(21)
	Liability as of December 31	(1,460)	(1,588)	(319)	(303)

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

Actuarial gain/(loss)	in USD millions				
	2010	2009	2008	2007	2006
Actuarial gain/(loss) as of January 1	(2,672)	(2,907)	(1,308)	(1,870)	(2,420)
Experience adjustments on plan liabilities	205	(37)	(147)	(118)	(375)
Experience adjustments on plan assets	388	318	(1,485)	188	447
Changes due to discount rate assumptions	(742)	(103)	223	975	–
Changes due to other actuarial assumptions	(65)	144	(392)	(345)	528
Asset ceiling recognition	11	(7)	51	(64)	–
Foreign currency translation effects	(39)	(80)	152	(75)	(50)
Total actuarial gain/(loss) as of December 31	(2,914)	(2,672)	(2,907)	(1,308)	(1,870)
Total actuarial gain/(loss) net of policyholder participation and taxes as of December 31	(1,924)	(1,762)	(1,934)	(818)	(1,286)

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

Assumptions used in determining the actuarial liabilities for major defined benefit pension plans	as of December 31				2010				2009			
	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany	Switzerland	United Kingdom	United States	Germany
Discount rate	2.9%	5.5%	5.3%	5.3%	3.1%	5.9%	5.8%	5.4%	3.1%	5.9%	5.8%	5.4%
Inflation rate	1.9%	3.4%	2.3%	1.7%	1.5%	3.1%	2.4%	1.7%	1.5%	3.1%	2.4%	1.7%
Expected long-term rate of return on assets	3.4%	6.2%	6.4%	4.5%	4.1%	6.6%	7.0%	5.1%	4.1%	6.6%	7.0%	5.1%
Expected future salary increases	2.5%	3.9%	4.2%	3.0%	2.1%	4.3%	3.9%	2.7%	2.1%	4.3%	3.9%	2.7%
Expected future pension increases	1.4%	3.4%	0.0%	1.7%	1.0%	3.1%	0.3%	1.7%	1.0%	3.1%	0.3%	1.7%
Current average life expectancy for a 65 year old male	19.9	22.7	19.4	18.3	19.8	22.3	19.4	18.1	19.8	22.3	19.4	18.1

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

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

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

Table 24.11

as of December 31	2010	2009
	U.S.	U.S.
Discount rate	5.0%	5.5%
Expected increase in long-term health cost – initial rate	7.8%	8.4%
Expected increase in long-term health cost – ultimate rate	4.8%	4.8%

The actuarial assumptions for healthcare cost trend rates have an impact on the amounts recognized. A one percentage point change in the health care cost trend rates would have the effects on amounts recognized as set out in table 24.12.

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

Table 24.12

	1% increase	1% decrease
Effect on total service cost and interest cost	– ¹	– ¹
Effect on benefit obligation	3	(3)

¹ Below USD 1 million.

b) Defined contribution pension plans

Certain of the Group's companies sponsor defined contribution pension plans. Eligibility for participation in such plans is either based on completion of a specified period of continuous service or the date of commencement of employment. The plans provide for voluntary contributions by employees and contributions by the employer which typically range from 2 percent to 10 percent of annual pensionable salary, depending on a number of factors. The Group's contributions under these plans amounted to USD 108 million and USD 99 million in 2010 and 2009, respectively.

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25. Share-based compensation and cash incentive plans

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

a) Cash incentive plans

Various businesses throughout the Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business unit. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expense recognized for these cash incentive plans amounted to USD 422 million and USD 401 million for the years ended December 31, 2010 and 2009, respectively.

b) Share-based compensation plans for employees and executives

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

Table 25.1

Expenses recognized in income	in USD millions, as of December 31	2010	2009
	Total option-based expenses	55	42
	Total share-based expenses	128	119
	Total expenses	183	161

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

Employee share plans

Share Incentive Plan for employees in the UK

The Group established an Inland Revenue approved Share Incentive Plan and launched the partnership shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Financial Services Ltd shares at the prevailing market price out of their gross earnings. There were 274 and 374 participants in the plan as of December 31, 2010 and 2009, respectively. The Group also operates the profit-sharing element of the Share Incentive Plan (reward shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on the participating employee's business unit's business operating profit (BOP) after tax for the year, subject to a maximum individual award of 5 percent of a participant's base salary (before any flexible benefit adjustments) or a maximum of GBP 3,000. The total number of participating employees in the reward share element of the plans as of December 31, 2010 and 2009 was 4,775 and 5,569 respectively.

Share Incentive Plans for employees in Switzerland

Under this plan, employees have the option to acquire sales-restricted shares at a 30 percent discount to the market value. The maximum permitted investment in shares is CHF 3,500 per employee. During 2010, 5,448 employees participated in the Employee Incentive Plan compared with 6,053 in 2009. For the year ended December 31, 2010, 1,372 employees received shares under the 2009 employee performance share plan. For the year ended December 31, 2009, 1,579 employees received shares under the 2008 employee performance share plan.

Share-based compensation plans for executives

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

Senior Executive long-term incentive plans

Each year, Senior Executives are granted performance shares and performance options, which vest on an annual basis over the subsequent three year period. The actual level of vesting, which can be between 0 percent and 175 percent, with an additional discretion to increase vesting to a maximum of 200 percent, of the original number of shares and/or

options granted, depends on the performance of the Group during the previous calendar year. For 2010 and future grants the Group is looking back to a three year performance period. The current performance metrics are the Group's return on equity (ROE) and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. One half of the shares that actually vest are sales-restricted for a further period of three years. The options have a seven year term from the date of grant. Grants under the plan are made annually each April. The actual number of performance shares and performance options granted is determined such that the economic value is a defined percentage of annual salary in the year of allocation. There were a total of 168 and 175 participants in this plan as of December 31, 2010 and 2009, respectively.

Executive long-term performance share plans

Each year, selected executives are granted performance shares which vest on an annual basis over the subsequent three year period. The actual level of vesting, which can be between 0 percent and 175 percent, with an additional discretion to increase vesting to a maximum of 200 percent, of the original number of shares granted, depends on the performance of the Group during the previous calendar year. For 2010 and future grants the Group is looking back to a three year performance period. The current performance metrics are the Group's ROE and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. Grants under the plan are made annually each April. The actual number of performance shares granted is determined such that the economic value is a defined percentage of the annual salary in the year of allocation. Actual awards under these plans are made fully in shares of Zurich Financial Services Ltd. One half of the shares that actually vest are sales-restricted for a further period of three years. There were a total of 947 and 900 participants in this plan as of December 31, 2010 and 2009, respectively.

c) Further information on performance share and option plans

Table 25.2

Movements in options granted under the various equity participation plans	Number of shares under option		Weighted average exercise price (in CHF)	
	2010	2009	2010	2009
	As of January 1	3,053,757	2,760,367	278
Options granted	1,698,817	1,175,774	272	276
Options forfeited	(73,560)	(31,161)	265	303
Options exercised	(427,673)	(147,369)	204	147
Options expired during period	(557,783)	(703,854)	298	327
As of December 31	3,693,558	3,053,757	281	278
Exercisable options as of December 31	2,263,094	2,132,033	281	278

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

The average share price for Zurich Financial Services Ltd shares in 2010 and 2009 was CHF 241.41 and CHF 209.33 respectively

Table 25.3

Share options exercised during the period	Amount		Average share price in CHF	
	2010	2009	2010	2009
Exercise date				
January to April	199,096	2,211	255	190
May to August	125,825	68,336	240	218
September to December	102,752	76,822	241	241
Total	427,673	147,369	248	230

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Table 25.4

Range of exercise prices of options outstanding	in CHF, as of December 31		Weighted average contractual life in years		Weighted average remaining expected life in years	
	Number of options					
	2010	2009	2010	2009	2010	2009
Exercise price						
100 to 200	536,850	527,527	7.0	7.0	5.3	6.1
201 to 300	1,404,170	785,161	7.0	7.0	4.8	2.0
301 to 400	1,752,538	1,741,069	7.1	7.1	3.3	4.3
Total	3,693,558	3,053,757	7.0	7.0	4.2	4.0

Table 25.5

Options and shares granted during the period	for the year ended December 31		Weighted average fair value at grant date (in CHF)	
	Number			
	2010	2009	2010	2009
Shares granted during the period	407,940	543,698	260	198
Options granted during the period ¹	1,698,817	1,175,774	29	62

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

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

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

Table 25.6

Black-Scholes assumptions for fair value of options	2010	2009
Share price, in CHF ¹	260	198
Exercise price, in CHF	260	198
Assumed volatility	25.55%	42.95%
Risk-free interest rate	2.00%	2.21%
Expected dividend yield	6.10%	4.07%
Contracted option life	7 years	7 years

¹ Share price as at date of grant.

The risk-free interest rate was determined by using the seven year CHF swap rate applicable in 2010 and 2009. The implied volatility was determined based on the average of a number of several independent quotes.

26. Contingent liabilities, contractual commitments and financial guarantees

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

Table 26.1

Quantifiable commitments and contingencies	in USD millions, as of December 31	
	2010	2009
Commitments under investment agreements	4,100	4,165
Less funded commitments	(3,513)	(3,386)
Remaining commitments under investment agreements	587	779
Guarantees and letters of credit ¹	9,544	9,911
Future rent commitments	1,016	1,154
Undrawn loan commitments	149	405
Other commitments and contingent liabilities	88	84

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

Commitments under investment agreements

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

Guarantees and letters of credit

USD 8,726 million of the USD 9,544 million for financial guarantees and letter of credit in 2010 relate to guarantees in the aggregate amount of GBP 5,595 million provided to the directors of a fully owned subsidiary in connection with the rationalization of the Group's top legal holding structure which resulted in the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009. These guarantees will expire in August 2015.

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

Commitments under lease agreements

The Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 187 million and USD 200 million for the years ended December 31, 2010 and 2009, respectively.

Table 26.2

Future payments under non-cancelable operating leases with terms in excess of one year	in USD millions, as of December 31	
	2010	2009
< 1 year	206	227
1 to 2 years	171	201
2 to 3 years	138	156
3 to 4 years	121	127
4 to 5 years	112	133
> 5 years	267	309
Total	1,016	1,154

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Indemnity agreements

The Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (now Scor Holding (Switzerland) AG) and its successor companies' net exposure for losses arising out of the September 11, 2001 event at USD 289 million. As of December 31, 2010 the Group has recorded in this respect provisions of USD 44 million.

Pledged assets

The majority of assets pledged to secure the Group's liabilities relates to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 9,611 million and USD 9,288 million as of December 31, 2010 and 2009, respectively.

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

Other contingent liabilities

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

The Group has commitments to provide collateral on certain contracts in the event of Zurich Insurance Company Ltd's financial strength downgrading from currently AA- by Standard & Poor's. Should the rating fall to A+ by Standard & Poor's, the additional collateral based on information available on December 31, 2010 is estimated to amount to approximately USD 168 million.

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

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

Legal proceedings and regulatory investigations

The Group and its subsidiaries are continuously involved in legal proceedings, claims and litigation 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.

In Switzerland, ten suits have been brought since 2000 in various Swiss courts by the Swiss Guaranty Fund for Occupational Retirement Schemes (the "Guaranty Fund") and the Vera Pension and Vera Investment Funds against Zurich Life Insurance Company ("Zurich Life") and Geneva Life Insurance Company ("Geneva Life"), wholly owned indirect subsidiaries of Zurich Insurance Company Ltd. Zurich Life and Geneva Life provided insurance to certain pension funds and granted loans on policy reserves. The proceeds were invested, together with additional bank loans, in various real estate projects by the investment funds. Successful throughout the 1970s and 1980s, the funds were facing increasing financial difficulties during the downturn of the real estate activity in the early 1990s, until they collapsed in 1996. Both Geneva Life and Zurich Life set off the loans against the policy reserves. The Guaranty Fund and the liquidators of the pension and investment funds alleged, inter alia, that the loans were illegal and the corporate defendants were de facto members of the management of the funds. They also alleged that the life insurance companies and other parties involved were jointly responsible for consolidated damages. Whereas two suits remain pending, the remaining suits have either been withdrawn or dismissed. The Group maintains that these suits are without merit and intends to continue to defend itself vigorously.

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company, 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. In addition to Zurich American Insurance Company ("ZAIC") and three of its insurance company subsidiaries, Zurich Insurance Company Ltd ("ZIC") and Orange Stone Reinsurance Dublin ("Orange Stone") are named as defendants. Plaintiffs, who are historical policyholders of the Home Insurance Company ("Home"), plead claims for fraudulent transfer, alter ego liability and unfair business practices relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. 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. Plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated 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, with 12 days of trial in 2010. The trial is currently scheduled to resume in April 2011.

A similar action entitled A.P.I., Inc. Asbestos Settlement Trust, et al. v. Zurich American Insurance Company, et al., was filed in March 2009 in the District Court for the Second Judicial District, County of Ramsey, Minnesota. ZAIC and two of its insurance company subsidiaries were named as defendants (the "Original Defendants"). The Original Defendants removed the case to the U.S. District Court for the District of Minnesota, where it is now pending. The plaintiffs subsequently amended their complaint to add ZIC, Orange Stone and two additional ZAIC subsidiaries as defendants (the "Newly-Added Defendants"). As in the Fuller-Austin cases, plaintiffs allege that A.P.I., Inc. is an insured under policies issued by Home, primarily in the 1970s. The complaint seeks to hold defendants liable for Home's policy obligations under various theories of vicarious liability tied to the recapitalization of Home, and it also alleges that defendants are liable for damages under theories of fraudulent transfer and tortious interference with contract.

Prior to the filing of the amended complaint, the Original Defendants moved to dismiss the case. After the amended complaint was filed, all defendants, including the Newly-Added Defendants, moved again to dismiss the amended complaint. On March 31, 2010, the court ruled on the original dismissal motion, and dismissed plaintiffs' claims against the Original Defendants under theories of fraudulent transfer and tortious interference with contractual relations, as well as a consumer fraud claim. On September 30, 2010, the court ruled on the motion to dismiss the amended complaint, and dismissed plaintiffs' claims against all defendants under theories of fraudulent transfer and tortious interference, as well as a consumer fraud claim. The motion - consistent with the court's March 31 2010 ruling - was denied as to the remaining claims, as the court found that plaintiffs' vicarious liability theories could not be disposed of on a motion to dismiss. Pretrial discovery is continuing. According to the court's scheduling order, summary judgment motions are scheduled to be filed on or about April 22, 2011, with additional briefing and argument to follow. The action is to be "trial ready" in May 2011. The Group maintains that the Fuller-Austin and API cases are without merit and intends to continue to defend itself vigorously.

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

Zurich Financial Services (now Zurich Financial Services Ltd) was a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium (now Scor Holding (Switzerland) AG). On July 25, 2008, Zurich Financial Services Ltd and the class-action plaintiffs entered into an amended stipulation of settlement that called for a payment of USD 28 million to settle the case in two parts on behalf of all persons and entities who had purchased Converium securities between January 7, 2002 and September 2, 2004: one settlement in the U.S. court, covering all U.S. persons and entities, and all other persons who had purchased Converium securities on U.S. markets, and another settlement in the Amsterdam Court of Appeal, in the Netherlands, covering all non U.S. persons and entities who had purchased Converium securities on non-U.S. markets. The U.S. and Dutch settlements are both subject to court approval and are independent of each other. The U.S. court approved the U.S. settlement on December 12, 2008, and the ruling became final in June 2009. The Dutch settlement papers were filed with the Dutch court on July 9, 2010.

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On November 12, 2010, the Amsterdam Court of Appeal provisionally ruled that it has jurisdiction to consider the petition for approval of the settlement. The Amsterdam Court of Appeal directed the parties to notify the class about the proposed settlement and will hold a hearing on October 3 and 4, 2011 to consider whether to declare the proposed settlement binding on the class.

Zurich Financial Services Ltd. is a defendant in a putative class action pending in California state court captioned Benjamin Fogel v. Farmers Group, Inc ("Fogel Case"). The case, originally filed in August 2003, is brought on behalf of a putative class of all policyholders of the Farmers Exchanges from 1999 to the present. The plaintiff alleges that Farmers Group, Inc. and certain of its affiliates ("Farmers"), which acted as the attorneys-in-fact for policyholders of the Farmers Exchanges, collected excessive and unreasonable management fees. The complaint seeks, amongst other things, disgorgement, as well as damages and injunctive relief. In February 2005, the trial court granted Farmers' motion for summary judgment, and plaintiff appealed. In 2008, a California appellate court reversed the trial court's ruling and reinstated the litigation. On September 9, 2009, 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 settlement, a sum of USD 455 million will be made available to approximately 15-20 million policyholders who may qualify for a distribution under the settlement, with any residual amount going to the Farmers Exchanges. The Group will also pay attorneys' fees to class action counsel of up to USD 90 million, as well as the costs of administering the settlement. On December 12, 2010, the parties executed the settlement agreement and they filed a motion on January 12, 2011 seeking preliminary approval of the settlement. On February 3, 2011, the court granted a motion to intervene by a class member who objects to parts of the settlement, and scheduled the hearing on the motion for preliminary approval for March 2, 2011. All terms of the settlement are subject to the court's approval.

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 proceedings could have a material impact on results of operations in the particular reporting period in which it is resolved.

27. Fair value of financial assets and financial liabilities

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

Fair value (FV) and carrying value of financial assets and financial liabilities – Group investments and other Non-unit-linked	Table 27.1a				
	in USD millions, as of December 31				
	Total fair value		Total carrying value		
	2010	2009	2010	2009	
Cash and cash equivalents	8,558	11,041	8,558	11,041	
Available-for-sale securities					
Debt securities	128,257	123,896	128,257	123,896	
Equity securities	9,798	7,563	9,798	7,563	
Total available-for-sale securities	138,055	131,459	138,055	131,459	
Securities at FV through profit or loss					
Trading					
Debt securities	43	82	43	82	
Equity securities	473	879	473	879	
Designated at FV					
Debt securities	6,826	7,602	6,826	7,602	
Equity securities	3,458	4,138	3,458	4,138	
Total securities at FV through profit or loss	10,799	12,702	10,799	12,702	
Derivative assets	1,673	1,240	1,673	1,240	
Held-to-maturity debt securities	5,280	5,408	5,129	5,143	
Equity method accounted investments	186	217	188	232	
Loans and receivables					
Mortgage loans	12,221	12,791	11,851	12,736	
Other loans	13,963	15,097	13,043	14,556	
Deposits made under assumed reinsurance contracts	2,812	3,854	2,832	3,861	
Mortgage loans given as collateral	739	1,130	743	1,102	
Receivables	13,160	13,076	13,195	13,144	
Other financial assets	4	8	4	8	
Total loans and receivables	42,901	45,956	41,670	45,408	
Total financial assets	207,452	208,024	206,072	207,225	
Financial liabilities at FV through profit or loss					
Trading:					
Obligation to repurchase securities	(3,330)	(3,976)	(3,330)	(3,976)	
Derivative liabilities	(1,002)	(660)	(1,002)	(660)	
Financial liabilities held at amortized cost					
Liabilities related to investment contracts	(592)	(254)	(592)	(254)	
Liabilities related to investment contracts with DPF	(4,875)	(5,306)	(5,134)	(5,728)	
Debt	(11,839)	(11,479)	(11,457)	(11,469)	
Deposits received under ceded reinsurance contracts	(1,231)	(1,446)	(1,362)	(1,558)	
Collateralized loans	(739)	(1,131)	(743)	(1,102)	
Other financial liabilities	(3,694)	(4,823)	(3,698)	(4,829)	
Total financial liabilities	(27,302)	(29,076)	(27,318)	(29,575)	

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Table 27.1b

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

in USD millions, as of December 31		Total fair value		Total carrying value	
		2010	2009	2010	2009
Cash and cash equivalents		7,163	5,840	7,163	5,840
Investments at FV through profit or loss					
Designated at FV					
Debt securities		9,376	10,194	9,376	10,194
Equity securities		85,765	78,311	85,765	78,311
Other loans		1,563	924	1,563	924
Total investments at FV through profit or loss		96,703	89,429	96,703	89,429
Derivative assets		104	98	104	98
Loans and receivables					
Total		103,970	95,368	103,970	95,368
Financial liabilities at FV through profit or loss					
Designated at FV					
Liabilities related to unit-linked investment contracts		(44,941)	(40,143)	(44,941)	(40,143)
Derivative liabilities		(3)	–	(3)	–
Total		(44,944)	(40,143)	(44,944)	(40,143)

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

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

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

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

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

Table 27.2a				
in USD millions, as of December 31, 2010				
	Level 1	Level 2	Level 3	Total
Fair Value Hierarchy – current period				
Available-for-sale securities				
Debt securities	38,827	86,036	3,394	128,257
Equity securities	3,414	3,548	2,836	9,798
Total available-for-sale securities	42,241	89,584	6,230	138,055
Securities at FV through profit or loss				
Trading				
Debt securities	41	2	–	43
Equity securities	–	40	433	473
Designated at FV				
Debt securities	2,847	3,789	191	6,826
Equity securities	516	1,397	1,545	3,458
Total securities at FV through profit or loss	3,404	5,227	2,169	10,799
Derivative assets	4	1,623	46	1,673
Total	45,649	96,433	8,445	150,527
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	–	(3,330)	–	(3,330)
Derivative liabilities	(5)	(973)	(25)	(1,002)
Total	(5)	(4,302)	(25)	(4,332)

Table 27.2b				
in USD millions, as of December 31, 2009				
	Level 1	Level 2	Level 3	Total
Fair Value Hierarchy – prior period				
Available-for-sale securities				
Debt securities	45,538	75,381	2,977	123,896
Equity securities	3,939	2,659	965	7,563
Total available-for-sale securities	49,477	78,040	3,942	131,459
Securities at FV through profit or loss				
Trading				
Debt securities	73	8	–	82
Equity securities	–	35	844	879
Designated at FV				
Debt securities	2,652	4,730	220	7,602
Equity securities	901	933	2,305	4,138
Total securities at FV through profit or loss	3,627	5,706	3,369	12,702
Derivative assets	–	1,200	40	1,240
Total	53,103	84,946	7,351	145,400
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	–	(3,976)	–	(3,976)
Derivative liabilities	–	(623)	(37)	(660)
Total	–	(4,599)	(37)	(4,636)

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Table 27.3a

Roll forward analysis for financial instruments classified under Level 3 – current period	Available-for-sale securities		Securities at FV through profit or loss			Derivative assets	Derivative liabilities
	in USD millions		Trading	Designated at FV			
	Debt securities	Equity securities	Equity securities	Debt securities	Equity securities		
As of January 1, 2010	2,977	965	844	220	2,305	40	(37)
Realized gains/(losses) recognized in income ¹	22	12	2	11	47	–	–
Unrealized gains/(losses) recog- nized in income ¹	(81)	(72)	(3)	32	106	5	12
Unrealized gains/(losses) recog- nized in other comprehensive income	545	727	–	–	–	–	–
Purchases	506	1,082	63	1	92	–	–
Sales/Redemptions/Settlements	(964)	(56)	(484)	(79)	(1,003)	–	–
Net transfers into Level 3	394	2	–	12	–	–	–
Foreign currency translation effects	(6)	176	11	(5)	(2)	2	–
As of December 31, 2010	3,394	2,836	433	191	1,545	46	(25)

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

Table 27.3b

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

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

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

As of December 31, 2010 and 2009, the Group classified under Level 3 asset-backed securities (ABSs) amounting to USD 3.6 billion and USD 3.2 billion, respectively. These ABSs include non-agency backed securities for which the limited market activity observed at year end required the Group's pricing providers to make certain internal valuation assumptions. To determine the fair value of these investments, pricing providers use valuation models that are based on an expected present value technique.

The key assumptions driving the valuation of these investments include discount margins and prepayment, recovery and default rates. The effect on reported fair values of using reasonably possible alternative values for each of these assumptions, while the other key assumptions remain unchanged, is disclosed in table 27.4. While the table 27.4 illustrates the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions, may differ significantly between investments, given their different terms and circumstances.

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

Table 27.4a

Sensitivity analysis of Level 3 ABSs to changes in key assumptions – current period	as of December 31, 2010			
	Less favorable values (relative change)	Decrease of reported fair value USD millions	More favorable values (relative change)	Increase of reported fair value USD millions
Key assumptions				
Discount margins	+20%	(105)	-20%	110
Prepayment rates	-20%	(35)	+20%	33
Recovery rates	-20%	(32)	+20%	31
Default rates	+20%	(6)	-20%	3

Table 27.4b

Sensitivity analysis of Level 3 ABSs to changes in key assumptions – prior period	as of December 31, 2009			
	Less favorable values (relative change)	Decrease of reported fair value USD millions	More favorable values (relative change)	Increase of reported fair value USD millions
Key assumptions				
Discount margins	+20%	(171)	-20%	183
Prepayment rates	-20%	(39)	+20%	33
Recovery rates	-20%	(37)	+20%	27
Default rates	+20%	(18)	-20%	12

As of December 31, 2010 and 2009, the Group also classified under Level 3 investments in hedge funds and private equity funds amounting to USD 2.2 billion and USD 3.3 billion, respectively. These investments are valued based on regular reports from the issuing funds and fair values are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments. Investments in hedge funds and private equity funds have not been included in the sensitivity analysis due to the large number of valuation assumptions that while, in total, have a significant effect on the fair value of these investments, when considered individually, the impact of changing them to reasonably possible alternative values would not be significant.

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Unit-linked financial instruments

Table 27.5a

Fair Value Hierarchy –
current period

in USD millions, as of December 31, 2010	Level 1	Level 2	Level 3	Total
Investments at FV through profit or loss				
Designated at FV				
Debt securities	4,421	4,812	143	9,376
Equity securities	47,644	33,471	4,650	85,765
Other loans	–	1,563	–	1,563
Total investments at FV through profit or loss	52,065	39,845	4,793	96,703
Derivative assets	–	102	2	104
Total	52,065	39,948	4,795	96,808
Financial liabilities at FV through profit or loss				
Designated at FV				
Liabilities related to unit-linked investment contracts	–	(44,941)	–	(44,941)
Derivative liabilities	–	(2)	(2)	(3)
Total	–	(44,942)	(2)	(44,944)

Table 27.5b

Fair Value Hierarchy –
prior period

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

Table 27.6a		Securities at FV through profit or loss	
Roll forward analysis for financial assets classified under Level 3 - current period	in USD millions	Designated at FV	
		Debt securities	Equity securities
		As of January 1, 2010	130
Realized gains/(losses) recognized in income ¹	4	27	
Unrealized gains/(losses) recognized in income ¹	23	124	
Purchases	19	113	
Sales/Redemptions	(29)	(167)	
Net transfers into/out of Level 3	1	(19)	
Foreign currency translation effects	(4)	(7)	
As of December 31, 2010	143	4,650	

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

Table 27.6b		Securities at FV through profit or loss	
Roll forward analysis for financial assets classified under Level 3 – prior period	in USD millions	Designated at FV	
		Debt securities	Equity securities
		As of January 1, 2009	138
Realized gains/(losses) recognized in income ¹	6	18	
Unrealized gains/(losses) recognized in income ¹	1	48	
Purchases	12	100	
Sales/Redemptions	(32)	(145)	
Foreign currency translation effects	4	4	
As of December 31, 2009	130	4,579	

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

Consolidated financial statements *continued*

28. Related party transactions

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

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

Table 28.1

Related party transactions included in the Consolidated financial statements

in USD millions	2010	2009
Consolidated income statements for the years ended December 31		
Net earned premiums and policy fees	12	10
Net investment income	(104)	(105)
Net investment expense	(1)	(1)
Other income/(expense)	(37)	–
Losses and loss adjustment expenses	(6)	(11)
Administrative and other operating expenses	(4)	(6)
Consolidated balance sheets as of December 31		
Cash and cash equivalents	475	158
Other loans	537	1,095
Total unit-linked investments	3,196	2,349
Receivables	1	1
Policyholders' collateral and other loans	9	12
Reserves for losses and loss adjustment expenses	(11)	(12)

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

Table 28.2				
Related party transactions – key personnel	in USD millions, for the years ended December 31		2010	2009
	Remuneration of key personnel of the Group			
	Cash compensation, current benefits and fees		30	29
	Post-employment benefits		3	4
	Share-based compensation		20	31
	Termination benefits		2	–
	Total remuneration of key personnel		55	64

As of December 31, 2010 there were no loans, advances or credits outstanding from Members of the Group Executive Committee, while loans and guarantees granted to Members of the Group Executive Committee amounted to USD 1 million for the year ended December 31, 2009. Outstanding loans and guarantees granted to Members of the Board of Directors amounted to USD 2 million for the years ended December 31, 2010 and 2009. The terms “Members of the Board of Directors” and “Members of the Group Executive Committee” in this context include the individual as well as members of their respective households. The above figures include the fees paid to Members of the Board of Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd, which were USD 3 million, for both the years ended December 31, 2010 and 2009.

No provision for non-repayment has been required in 2010 and 2009 for the loans or guarantees made to Members of the Group Executive Committee.

Information required by art. 663b^{bis} and art. 663c paragraph 3 of the Swiss Code of Obligation is disclosed in the Financial Statements of the holding company.

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

Consolidated financial statements *continued*

29. Farmers Exchanges

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

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

As of December 31, 2010 and 2009, FGI and other Group companies held the following surplus note and certificates of contribution issued by the Farmers Exchanges. Originally these were purchased by FGI in order to supplement the policyholders' surplus of the Farmers Exchanges.

Table 29

Surplus Notes

in USD millions, as of December 31	2010	2009
6.15% surplus note, due December 2013	88	88
6.15% certificates of contribution, due December 2013	523	523
6.15% certificates of contribution, due August 2014	296	296
4.65% certificates of contribution, due December 2013 ¹	150	300
Various other certificates of contribution	23	23
Total	1,080	1,230

¹ On August 1, 2010, USD 150 million of the USD 300 million surplus note with the Farmers Exchanges was redeemed. In addition, the interest rate on the remaining USD 150 million surplus note was reset to 4.65 percent from 10.30 percent.

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

b) Quota share reinsurance treaties with the Farmers Exchanges

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

Auto Physical Damage Quota Share reinsurance agreement

The Auto Physical Damage (APD) Quota Share reinsurance agreement (APD agreement) with the Farmers Exchanges provides for annual ceded premiums of USD 1 billion of gross written premiums with 20.0 percent assumed by Farmers Re Co (USD 200 million) and 80.0 percent assumed by ZIC (USD 800 million), a 25.8 percent ceding commission for acquisition expenses, and an 8.2 percent ceding commission for unallocated loss adjustment expense. In addition, Farmers Re Co and ZIC assume a quota share percentage of ultimate net losses sustained by the Farmers Exchanges in their APD lines of business. The APD agreement also includes provisions for additional experience commissions that will depend on loss experience and recoveries below a specified ratio for each year. This experience commission arrangement limits Farmers Re Co and ZIC's potential underwriting gain on the assumed business to 2.0 percent of premiums assumed plus 20.0 percent of the underwriting gain resulting from a combined ratio under 98.0 percent. The APD agreement, which can be cancelled after 90 days notice by any of the parties, was renewed with the same terms on January 1, 2009 and has a termination date of December 31, 2011.

Farmers Exchanges' share of ceded premiums amounted to USD 1 billion for both the years ended December 31, 2010 and 2009. Ceded incurred losses and loss adjustment expenses totaled USD 648 million and USD 667 million for the years ended December 31, 2010 and 2009, respectively. Farmers Exchanges' share of the total experience commission income was USD 315 million and USD 299 million for the years ended December 31, 2010 and 2009, respectively.

All Lines Quota Share reinsurance agreement

Effective December 31, 2002, certain of the Farmers Exchanges began participating in a 10.0 percent All Lines Quota Share reinsurance agreement (All Lines agreement) with Farmers Re Co and ZIC which has been amended over the years. The All Lines agreement provided for a cession of a quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers Exchanges after the APD agreement has been applied.

Loss recoveries are subjected to a maximum ratio. In addition, under this treaty the Farmers Exchanges' catastrophe losses are subject to a maximum of USD 800 million. The All Lines agreement also provided for the Farmers Exchanges to receive a provisional ceding commission of 22.0 percent of premiums for acquisition expenses which are recognized as ceded premiums are written, and 8.8 percent of premiums for unallocated loss adjustment expenses and 5.3 percent of premiums for other expenses which are both recognized as premiums are earned, with additional experience commissions potentially payable depending on loss experience.

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

Effective December 31, 2009, the All Lines agreement was modified and the participation ratio was decreased by 2.5 percent to 35 percent. In addition to this change, the provisional ceding commission for acquisition expenses was increased from 25.0 percent to 25.7 percent, and the ceding commission for unallocated loss adjustment expense increased from 8.8 percent to 9.0 percent. Unearned premiums totaling USD 159 million were transferred from Farmers Re Co and ZIC to the Farmers Exchanges as a result of their decreased participation in the All Lines agreement effective December 31, 2009. In addition, the Farmers Exchanges remitted USD 41 million of reinsurance commissions to Farmers Re Co and ZIC for acquisition expenses due to the decreased participation in the All Lines agreement.

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

Effective December 31, 2010, the All Lines agreement was modified and the participation ratio was decreased by 13.0 percent to 12.0 percent. In addition to this change, the provisional ceding commission for acquisition expenses was increased by 1.0 percent from 25.7 percent to 26.7 percent, while the Farmers Exchanges' catastrophe losses were changed from USD 1.0 billion to a maximum of USD 1.2 billion. Unearned premiums totaling USD 693 million were transferred from Farmers Re Co and ZIC to the Farmers Exchanges as a result of their decreased participation in the All Lines agreement effective December 31, 2010. In addition, the Farmers Exchanges remitted USD 185 million of reinsurance commissions to Farmers Re Co and ZIC for acquisition expenses due to the decreased participation in the All Lines agreement.

Based on the results for 2010 and 2009, Farmers Exchanges' share of recoveries were USD 3,059 million and USD 3,239 million, respectively. For the years ended December 31, 2010 and 2009, Farmers Exchanges' share of ceded premiums earned were USD 4,574 million and USD 4,722 million, respectively. Farmers Exchanges' share of ceding commissions was USD 1,418 million and USD 1,461 million for the years ended December 31, 2010 and 2009, respectively.

Consolidated financial statements *continued*

30. Segment information

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

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

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

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

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

The Group's new management structure effective July 1, 2010, reconfirmed the three core operating segments.

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

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

The Group also manages its business on a geographic structure. The Group's identified regions are as follows:

Americas

Europe & Africa

Asia-Pacific & Middle East

Central Region

The segment information includes the Groups' internal performance measure, business operating profit (BOP). This measure is the basis on which business units are managed. It indicates the underlying performance of the business units by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains and losses 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, nonoperational foreign exchange movements, and significant items arising from special circumstances, including restructuring charges, charges for litigation outside the ordinary course of business and gains and losses on divestments of businesses.

Consolidated financial statements *continued*

Table 30.1

Business operating profit by business segment

in USD millions, for the years ended December 31

	General Insurance		Global Life	
	2010	2009	2010	2009
Revenues				
Direct written premiums and policy fees ¹	30,906	32,516	12,172	12,343
Assumed written premiums	2,161	1,641	120	97
Gross written premiums and policy fees	33,066	34,157	12,292	12,440
Less premiums ceded to reinsurers	(5,100)	(5,222)	(754)	(769)
Net written premiums and policy fees	27,966	28,935	11,539	11,672
Net change in reserves for unearned premiums	(129)	136	(26)	6
Net earned premiums and policy fees	27,837	29,071	11,513	11,677
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	2,913	3,181	4,390	4,032
Net investment income on Group investments	2,867	3,070	3,892	4,081
Net capital gains/(losses) and impairments on Group investments	46	110	498	(49)
Net investment result on unit-linked investments	–	–	9,639	11,697
Other income	709	852	918	854
Total BOP revenues	31,459	33,103	26,460	28,261
<i>of which: inter-segment revenues</i>	<i>(414)</i>	<i>(385)</i>	<i>(296)</i>	<i>(294)</i>
Benefits, losses and expenses				
Insurance benefits and losses, net	19,795	20,622	10,140	10,594
Losses and loss adjustment expenses, net	19,773	20,590	76	53
Life insurance death and other benefits, net	22	40	9,773	10,577
(Decrease)/increase in future life policyholders' benefits, net ¹	1	(8)	291	(36)
Policyholder dividends and participation in profits, net	3	15	10,302	12,018
Income tax expense/(benefit) attributable to policyholders	–	–	462	387
Underwriting and policy acquisition costs, net	5,396	5,493	1,503	1,145
Administrative and other operating expense (excl. depreciation/amortization)	3,134	3,184	1,883	1,827
Interest credited to policyholders and other interest	39	32	428	444
Restructuring provisions and other items not included in BOP	(306)	(170)	(179)	(119)
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	28,061	29,177	24,539	26,296
Business operating profit (before interest, depreciation and amortization)	3,398	3,927	1,922	1,965
Depreciation and impairments of property and equipment	83	80	32	34
Amortization and impairments of intangible assets	398	177	303	346
Interest expense on debt	222	209	71	93
Business operating profit before non-controlling interests	2,695	3,460	1,516	1,492
Non-controlling interests	22	(3)	42	15
Business operating profit	2,673	3,463	1,474	1,477
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	299	474	96	405

¹ The Global Life segment includes approximately USD 1,514 million and USD 2,698 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in our Spanish operations for the years ended December 31, 2010 and 2009, respectively (see note 3).

² As outlined in note 1, business operating profit (BOP) has not been restated for the change in the current value of certain insurance liabilities and assets amounting to USD 1,006 million in order to ensure a fair reflection of sustainable operating profit and comparability.

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
-	-	-	-	389	566	-	(11)	43,467	45,414
4,194	6,615	137	142	142	134	(256)	(226)	6,498	8,403
4,194	6,615	137	142	531	700	(256)	(237)	49,965	53,817
-	-	(54)	(52)	(32)	(39)	256	237	(5,683)	(5,844)
4,194	6,615	84	90	499	661	-	-	44,282	47,973
1,380	(893)	-	-	2	5	(1)	-	1,227	(746)
5,574	5,722	84	90	502	666	(1)	-	45,509	47,227
2,778	2,690	-	-	-	-	-	-	2,778	2,690
156	174	525	461	377	333	(857)	(880)	7,506	7,301
156	174	525	461	509	598	(857)	(880)	7,092	7,505
-	-	-	-	(131)	(265)	-	-	413	(204)
-	-	-	-	454	778	-	-	10,093	12,475
91	85	784	1,101	164	186	(1,225)	(1,277)	1,442	1,802
8,600	8,672	1,394	1,653	1,498	1,963	(2,083)	(2,157)	67,327	71,496
(70)	(90)	(1,191)	(1,312)	(113)	(77)	2,083	2,157	-	-
3,708	3,904	72	86	769	(103)	-	-	34,484	35,103
3,708	3,904	2	5	62	49	-	38	23,620	24,639
-	-	69	82	683	656	-	1	10,548	11,356
-	-	-	-	24	(808)	-	(39)	316	(892)
-	-	-	-	496	826	(1)	-	10,801	12,859
-	-	-	-	-	-	-	-	462	387
1,733	1,760	6	12	8	10	(10)	(18)	8,636	8,403
1,900	1,311	980	962	188	136	(1,195)	(1,215)	6,890	6,206
1	-	3	1	62	90	(3)	(4)	529	563
(602)	(34)	12	81	21	1,165	-	-	(1,055)	922
6,739	6,941	1,072	1,143	1,544	2,123	(1,209)	(1,237)	60,746	64,444
1,860	1,731	322	510	(46)	(160)	(874)	(921)	6,581	7,052
65	86	20	35	4	11	-	-	205	245
109	82	64	38	8	3	-	-	882	647
-	8	1,039	1,049	98	116	(874)	(921)	556	555
1,686	1,554	(802)	(611)	(157)	(290)	-	-	4,939	5,605
-	-	(1)	-	1	1	-	-	64	12
1,686	1,554	(801)	(611)	(157)	(290) ²	-	-	4,875	5,593
236	917	91	81	24	(1)	-	-	747	1,875

Consolidated financial statements *continued*

Table 30.2

Reconciliation of
BOP to net income
after income taxes

in USD millions, for the years ended December 31

	General Insurance		Global Life	
	2010	2009	2010	2009
Business operating profit	2,673	3,463	1,474	1,477
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	281	(674)	14	(441)
Net gain/(loss) on divestments of businesses	5	(2)	33	–
Restructuring provisions	(71)	(52)	(21)	(17)
Other adjustments	(235)	(118)	(158)	(103)
Add back:				
Business operating profit attributable to non-controlling interests	22	(3)	42	15
Net income before shareholders' taxes	2,674	2,614	1,384	931
Income tax expense/(benefit) attributable to policyholders	–	–	462	387
Net income before income taxes	2,674	2,614	1,845	1,318
Income tax expense (attributable to policyholders and shareholders)				
Net income after taxes				

¹ Business operating profit (BOP) has not been restated for the change in the current value of certain insurance liabilities and assets amounting to USD 1,006 million in order to ensure a fair reflection of sustainable operating profit and comparability (see note 1).

² Includes USD 570 million settlement costs related to the FOGEL case (see note 26).

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	1,686	1,554	(801)	(611)	(157)	(290)	4,875	5,593
	(9)	(50)	168	(62)	31	(145)	484	(1,372)
	-	-	-	-	1	(3)	38	(5)
	(17)	(27)	-	-	(1)	(2)	(111)	(97)
	(585) ²	(7)	12	81	22	1,167 ¹	(944)	1,020
	-	-	(1)	-	1	1	64	12
	1,074	1,470	(622)	(592)	(104)	727	4,406	5,150
	-	-	-	-	-	-	462	387
	1,074	1,470	(622)	(592)	(104)	727	4,868	5,537
							(1,355)	(1,553)
							3,513	3,983

Consolidated financial statements *continued*

Table 30.3

Assets and liabilities by business segment	General Insurance		Global Life	
	2010	2009	2010	2009
in USD millions, as of December 31				
Assets				
Total Group Investments	85,967	85,384	100,976	101,027
Cash and cash equivalents	9,024	9,371	2,941	3,418
Equity securities	5,561	4,743	5,201	5,460
Debt securities	64,136	63,885	64,471	62,883
Real estate held for investment	2,940	3,004	4,893	4,408
Mortgage loans	1,495	1,483	8,538	9,021
Other loans	2,806	2,871	14,836	15,712
Equity method accounted investments	6	25	97	125
Investments for unit-linked contracts	–	–	96,139	87,430
Total investments	85,967	85,384	197,116	188,457
Reinsurers' share of reserves for insurance contracts	13,314	12,957	1,997	2,160
Deposits made under assumed reinsurance contracts	116	66	11	3
Deferred policy acquisition costs	3,472	3,374	12,686	12,276
Deferred origination costs	–	–	866	856
Goodwill	869	1,029	411	442
Other intangible assets	1,208	1,419	3,022	4,000
Other assets ¹	14,747	15,369	7,367	7,300
Total assets (after cons. of investments in subsidiaries)	119,693	119,597	223,476	215,494
Liabilities				
Liabilities for investment contracts	–	–	50,912	46,374
Reserves for insurance contracts	80,170	79,900	138,536	136,256
Reserves for losses and loss adjustment expenses	63,826	63,476	58	35
Reserves for unearned premiums	15,050	15,191	201	302
Future life policyholders' benefits	103	98	74,901	74,760
Policyholders' contract deposits and other funds	1,192	1,135	13,397	14,691
Reserves for unit-linked contracts	–	–	49,978	46,468
Debt related to capital markets	–	–	–	–
Senior debt	5,152	3,462	457	265
Subordinated debt	1,700	2,054	793	1,019
Other liabilities	14,346	14,942	17,960	17,615
Total liabilities	101,367	100,357	208,659	201,530
Equity				
Common shareholders' equity				
Preferred securities				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				

¹ The General Insurance segment, includes assets held for sale of USD 67 million as of December 31, 2009, related to land and buildings formerly classified as held for own use.

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
4,526	4,561	20,110	18,027	14,757	15,826	(30,438)	(29,167)	195,898	195,658
808	734	7,158	6,188	3,148	3,748	(14,521)	(12,417)	8,558	11,041
83	85	2,597	1,538	287	755	–	–	13,729	12,581
1,296	1,302	4,070	2,959	7,261	6,718	(980)	(1,024)	140,254	136,723
135	149	45	46	261	181	–	–	8,274	7,789
–	–	–	–	1,819	2,264	–	(33)	11,851	12,736
2,204	2,290	6,235	7,294	1,900	2,081	(14,937)	(15,693)	13,043	14,556
–	–	5	3	80	79	–	–	188	232
–	–	–	–	11,808	11,737	–	–	107,947	99,167
4,526	4,561	20,110	18,027	26,565	27,563	(30,438)	(29,167)	303,845	294,825
212	211	–	(95)	4,328	4,812	(1,041)	(1,293)	18,809	18,751
2,201	3,158	–	–	530	664	(26)	(29)	2,832	3,861
167	529	–	–	1	2	–	–	16,326	16,181
–	–	–	–	–	–	–	–	866	856
819	821	5	5	–	–	–	–	2,104	2,297
1,453	1,397	269	219	2	9	–	–	5,954	7,044
1,202	1,547	2,714	1,737	1,149	1,470	(2,255)	(2,037)	24,923	25,385
10,581	12,224	23,097	19,893	32,575	34,521	(33,759)	(32,527)	375,661	369,202
–	–	–	–	–	–	(246)	(250)	50,667	46,124
2,711	3,946	57	365	22,194	22,903	(1,021)	(1,276)	242,646	242,094
1,938	1,793	46	49	2,953	3,531	(752)	(799)	68,069	68,086
773	2,153	5	5	25	33	(7)	(7)	16,046	17,676
–	–	6	311	4,569	4,572	(265)	(470)	79,315	79,271
–	–	–	–	2,839	3,030	2	1	17,430	18,857
–	–	–	–	11,807	11,736	–	–	61,786	58,204
–	–	623	553	1,624	1,769	(1,847)	(2,298)	400	25
–	–	23,441	23,224	838	1,082	(23,835)	(21,756)	6,053	6,277
–	–	5,000	5,206	170	155	(2,659)	(3,268)	5,004	5,167
2,024	1,801	2,366	1,709	5,026	6,022	(4,152)	(3,679)	37,570	38,410
4,735	5,747	31,487	31,058	29,852	31,932	(33,759)	(32,527)	342,340	338,098
								31,509	28,743
								475	561
								31,984	29,304
								1,337	1,800
								33,321	31,104
								375,661	369,202

Consolidated financial statements *continued*

Table 30.4

in USD millions, for the years ended December 31

General Insurance –
Customer segment
overview

	Global Corporate		North America Commercial	
	2010	2009	2010	2009
Gross written premiums and policy fees	7,624	7,602	9,728	9,864
Net earned premiums and policy fees	4,902	4,738	7,580	8,331
Insurance benefits and losses, net	3,662	3,540	5,102	5,711
Policyholder dividends and participation in profits, net	(2)	3	8	8
Total net technical expenses	1,036	964	2,254	2,355
Net underwriting result	205	231	217	257
Net investment income	567	601	1,097	1,150
Net capital gains/(losses) and impairments on investments	11	35	35	52
Net non-technical result (excl. items not included in BOP)	(41)	(79)	(230)	(216)
Business operating profit before non-controlling interests	742	787	1,118	1,243
Non-controlling interests	1	–	–	–
Business operating profit	741	787	1,118	1,243
Ratios, as % of net earned premiums and policy fees				
Loss ratio	74.7%	74.7%	67.3%	68.5%
Expense ratio	21.1%	20.4%	29.8%	28.4%
Combined ratio	95.8%	95.1%	97.1%	96.9%

Europe General Insurance		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
13,273	14,556	3,011	2,695	557	486	(1,127)	(1,046)	33,066	34,157
13,089	13,894	2,198	2,057	68	51	–	–	27,837	29,071
9,410	10,230	1,502	1,265	120	(124)	–	–	19,795	20,622
(3)	4	–	–	–	–	–	–	3	15
3,355	3,439	798	727	22	19	(5)	1	7,461	7,504
327	222	(102)	64	(74)	157	5	(1)	577	930
971	1,102	165	162	66	62	2	(6)	2,867	3,070
1	23	–	–	–	–	–	–	46	110
(481)	(236)	3	(51)	(41)	(75)	(6)	7	(796)	(650)
818	1,111	66	175	(49)	144	–	–	2,695	3,460
2	(9)	19	5	–	–	–	–	22	(3)
816	1,120	48	169	(49)	144	–	–	2,673	3,463
71.9%	73.6%	68.3%	61.5%	nm	nm	n/a	n/a	71.1%	70.9%
25.6%	24.8%	36.3%	35.3%	nm	nm	n/a	n/a	26.8%	25.9%
97.5%	98.4%	104.6%	96.9%	nm	nm	n/a	n/a	97.9%	96.8%

Consolidated financial statements *continued*

Table 30.5

General Insurance –
Revenues by region

in USD millions, for the years ended December 31

	Gross written premiums and policy fees from external customers	
	2010	2009
Global Corporate		
North America	2,670	2,685
Europe	4,089	4,298
Rest of Global Corporate	540	370
Subtotal	7,299	7,353
Europe & Africa		
United Kingdom	2,785	3,170
Germany	2,627	2,944
Switzerland	2,351	2,259
Italy	2,002	2,213
Spain	1,214	1,338
Southern Africa	634	650
Rest of Europe & Africa	1,663	1,899
Subtotal	13,276	14,473
Americas		
United States	8,976	9,189
Rest of North America	554	469
Latin America	1,374	1,353
Subtotal	10,905	11,012
Asia-Pacific & Middle East		
Asia-Pacific Mature Markets	1,292	1,070
China & South East Asia	254	229
Subtotal	1,546	1,299
Central Region		
Europe	3	2
Subtotal	3	2
Total	33,029	34,138

**General Insurance –
Assets by region**

Table 30.6

in USD millions, as of December 31

	Property/equipment and intangible assets	
	2010	2009
Europe & Africa		
United Kingdom	212	222
Germany	225	253
Switzerland	134	127
Italy	65	75
Spain	541	747
Southern Africa	25	22
Rest of Europe & Africa	1,245	1,437
Subtotal	2,447	2,883
Americas		
United States	232	216
Rest of North America	8	6
Latin America	183	164
Subtotal	424	386
Asia-Pacific & Middle East		
Asia-Pacific Mature Markets	114	93
China & South East Asia	27	24
Subtotal	141	117
Total	3,012	3,385

Consolidated financial statements *continued*

Table 30.7

in USD millions, for the years ended December 31

Global Life –
Overview

	Americas		United Kingdom		Germany	
	2010	2009	2010	2009	2010	2009
Revenues						
Life insurance deposits	375	619	4,726	3,612	2,541	2,118
Gross written premiums ¹	1,133	993	401	351	3,355	3,096
Policy fees	309	264	1,124	745	394	335
Gross written premiums and policy fees	1,442	1,257	1,525	1,096	3,749	3,431
Net earned premiums and policy fees	1,155	982	1,345	923	3,651	3,323
Net investment income on Group investments	462	437	291	342	1,628	1,733
Net capital gains/(losses) and impairments on Group investments	4	10	224	3	221	(125)
Net investment result on Group investments	466	446	515	346	1,849	1,608
Net investment income on unit-linked investments	(22)	(15)	1,371	1,500	106	107
Net capital gains/(losses) and impairments on unit-linked investments	109	161	5,180	5,118	787	1,582
Net investment result on unit-linked investments	86	146	6,551	6,618	893	1,689
Other income	119	117	174	187	250	181
Total BOP revenues	1,826	1,691	8,584	8,074	6,642	6,801
Benefits, losses and expenses						
Insurance benefits and losses, net ¹	760	646	596	365	3,956	3,604
Policyholder dividends and participation in profits, net	91	150	6,393	6,472	1,471	1,948
Income tax expense/(benefit) attributable to policyholders	–	–	404	311	37	50
Underwriting and policy acquisition costs, net	208	63	444	249	318	317
Administrative and other operating expense (excl. depreciation/amortization)	243	205	437	412	292	335
Interest credited to policyholders and other interest	173	169	11	11	152	160
Restructuring provisions and other items not included in BOP	(1)	1	(114)	(56)	(3)	–
Total BOP benefits, losses and expenses	1,473	1,233	8,172	7,764	6,224	6,414
Business operating profit (before interest, depreciation and amortization)	353	458	413	311	418	387
Depreciation and impairments of property and equipment	2	2	10	10	11	12
Amortization and impairments of intangible assets	27	(8)	47	30	67	41
Interest expense on debt	2	3	5	11	1	–
Business operating profit before non-controlling interests	322	462	351	261	339	334
Non-controlling interests	5	5	–	–	8	10
Business operating profit	317	458	351	261	331	324
Supplementary information						
Gross written premiums and policy fees from external customers	1,442	1,257	1,519	1,089	3,695	3,379
Property, equipment and intangible assets	270	297	410	446	911	1,020

¹ The Global Life segment includes approximately USD 1,514 million and USD 2,698 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in our Spanish operations for the years ended December 31, 2010 and 2009, respectively (see note 3).

	Switzerland		Ireland		Spain		Emerging Markets in Asia		Rest of the world		Eliminations		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	57	81	2,534	1,912	2,157	2,266	1,325	1,215	1,667	1,765	-	-	15,382	13,589
	1,547	1,617	390	250	2,239	3,468	243	208	857	777	(53)	(36)	10,113	10,722
	(4)	(10)	123	135	25	55	102	47	107	147	-	-	2,179	1,718
	1,543	1,607	513	385	2,264	3,523	345	255	963	924	(53)	(36)	12,292	12,440
	1,537	1,600	418	287	2,221	3,495	307	215	880	852	-	-	11,513	11,677
	624	606	89	87	385	476	43	34	371	366	-	-	3,892	4,081
	17	43	12	(39)	(1)	8	28	45	(6)	4	-	-	498	(49)
	641	649	101	49	384	484	71	79	365	370	-	-	4,390	4,032
	8	2	193	171	109	75	8	8	89	71	-	-	1,862	1,920
	(8)	52	592	967	(50)	249	1,003	1,034	166	615	-	-	7,777	9,777
	(1)	54	784	1,138	60	324	1,011	1,042	255	686	-	-	9,639	11,697
	55	45	-	2	46	44	53	79	228	201	(8)	(3)	918	854
	2,232	2,348	1,304	1,476	2,710	4,347	1,442	1,416	1,727	2,110	(8)	(3)	26,460	28,261
	1,521	1,539	225	61	2,302	3,613	102	109	678	657	-	-	10,140	10,594
	100	198	828	1,128	64	340	1,004	1,011	353	771	-	-	10,302	12,018
	-	-	19	20	-	-	-	-	1	6	-	-	462	387
	160	152	75	106	29	53	143	76	128	129	(1)	-	1,503	1,145
	199	222	68	80	106	99	84	109	460	370	(7)	(3)	1,883	1,827
	15	16	42	43	3	2	29	28	1	17	-	-	428	444
	(12)	(21)	(4)	-	(37)	(45)	-	10	(9)	(9)	-	-	(179)	(119)
	1,983	2,105	1,253	1,438	2,467	4,062	1,362	1,343	1,613	1,941	(8)	(3)	24,539	26,296
	250	243	51	39	244	286	80	72	115	169	-	-	1,922	1,965
	3	4	1	1	-	-	4	4	1	1	-	-	32	34
	-	-	1	1	134	203	3	4	24	75	-	-	303	346
	3	2	-	-	54	69	-	-	6	9	-	-	71	93
	244	237	49	37	56	13	73	64	83	84	-	-	1,516	1,492
	-	-	-	-	29	1	-	-	-	-	-	-	42	15
	244	237	49	37	27	13	73	64	83	84	-	-	1,474	1,477
	1,542	1,606	513	385	2,264	3,523	289	221	948	909	-	-	12,212	12,369
	157	198	5	5	1,991	2,859	7	11	160	163	-	-	3,912	4,998

Consolidated financial statements *continued*

Table 30.8			
Farmers – Overview	in USD millions, for the years ended December 31	Total	
		2010	2009
Farmers Management Services			
	Management fees and other related revenues	2,778	2,690
	Management and other related expenses	1,440	1,399
	Gross management result	1,338	1,291
	Other net income (excl. items not included in BOP)	27	35
	Business operating profit before non-controlling interest	1,365	1,326
	Business operating profit	1,365	1,326
Farmers Re			
	Gross written premiums and policy fees	4,194	6,615
	Net earned premiums and policy fees	5,574	5,722
	Insurance benefits and losses, net	(3,708)	(3,904)
	Total net technical expenses	(1,733)	(1,760)
	Net underwriting result	134	58
	Net non-technical result (excl. items not relevant for BOP)	84	71
	Net investment result income	104	100
	Business operating profit before non-controlling interests	321	228
	Business operating profit	321	228
	Farmers business operating profit	1,686	1,554
Ratios, as % of net earned premiums and policy fees			
	Farmers Re Combined ratio	97.6%	99.0%
Supplementary information			
	Property, equipment and intangible assets ¹	2,468	2,541

¹ As of December 31, 2010 and 2009, respectively.

Consolidated financial statements *continued*

Table 30.9

in USD millions, for the years ended December 31

	Alternative Investments	
	2010	2009
Gross written premiums and policy fees	–	–
Net earned premiums and policy fees	–	–
Net investment income	8	8
Other income	12	11
Total BOP revenues	20	19
Insurance benefits and losses, incl. PH dividends, net	–	–
Underwriting and policy acquisition costs, net	–	–
Administrative and other operating expense (excl. depreciation/amortization)	71	27
Other expenses (excl. items not included in BOP)	(50)	–
Depreciation, amortization and impairments of property, equipment and intangible assets	–	–
Interest expense on debt	23	24
Business operating profit before non-controlling interests	(25)	(32)
Non-controlling interests	(1)	–
Business operating profit	(25)	(32)

	Holding & Financing		Headquarters		Eliminations		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	129	134	8	8	–	–	137	142
	76	83	8	8	–	–	84	90
	492	456	30	5	(5)	(8)	525	461
	68	103	835	1,070	(131)	(82)	784	1,101
	636	642	873	1,082	(136)	(89)	1,394	1,653
	69	81	3	5	–	–	72	86
	5	12	–	–	–	–	6	12
	112	(129)	927	1,145	(130)	(82)	980	962
	67	82	(3)	–	–	–	14	82
	–	–	84	72	–	–	84	73
	1,020	1,032	1	1	(5)	(8)	1,039	1,049
	(638)	(438)	(138)	(141)	–	–	(802)	(611)
	–	–	–	–	–	–	(1)	–
	(638)	(438)	(138)	(141)	–	–	(801)	(611)

Consolidated financial statements *continued*

Table 30.10

in USD millions, for the years ended December 31

Non-Core
Businesses –
Overview

	Total	
	2010	2009
Gross written premiums and policy fees	531	700
Net earned premiums and policy fees	502	666
Insurance benefits and losses, net	769	(103)
Policyholder dividends and participation in profits, net	496	826
Total net technical expenses	57	(12)
Net underwriting result	(821)	(44)
Net investment income	208	316
Net capital gains/(losses) and impairments on investments	624	795
Net non-technical result (excl. items not included in BOP)	(168)	(1,356)
Business operating profit before non-controlling interests	(157)	(290)
Non-controlling interests	1	1
Business operating profit	(157)	(290)¹

¹Business operating profit (BOP) has not been restated for the change in the current value of certain insurance liabilities and assets amounting to USD 1,006 million in order to ensure a fair reflection of sustainable operating profit and comparability (see note 1).

31. Events after the balance sheet date

On January 25, 2011 the general assemblies of Türk Ekonomi Bankası A.Ş. (TEB) and Fortis Bank A.Ş. (Fortis), two banks based in Turkey, approved the merger of Fortis into TEB by dissolution without liquidation. In addition to the Group's existing bancassurance partnership with TEB since 2008 and in anticipation of this merger the Group entered into a distribution agreement with Fortis on December 21, 2010. The consideration for this agreement comprises an initial payment of USD 26 million plus an earn-out component.

The Group is still assessing the impact of both Australian flooding events which occurred in January 2011. The first event in the Brisbane area in the second week of January 2011 and the second event in the Victoria area in the latter half of the month. Total incurred losses are not yet known, but are likely to be more severe than the December 2010 Australian floods, for which the Group estimated a pre-tax loss of USD 100 million.

Report of the Statutory Auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Financial Services Ltd

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Zurich Financial Services Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity, and notes (pages 96 to 129 and 135 to 253), for the year ended December 31, 2010.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Ray Kunz
Audit expert
Auditor in charge

Patrick Shouvin
Global relationship partner

Zurich, February 9, 2011

Consolidated financial statements *continued*

Disclaimer & Cautionary Statement

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

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

Persons requiring advice should consult an independent adviser.

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

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

Significant subsidiaries

Significant subsidiaries

as of December 31, 2010

	Domicile	Segment ¹	Voting rights %	Ownership interest %	Nominal value of common stock (in local currency millions)	
Australia						
Zurich Australia Limited	Sydney	Global Life	100	100	AUD	0.5
Zurich Australian Insurance Limited	Sydney	General Insurance	100	100	AUD	6.6
Zurich Financial Services Australia Limited	Sydney	General Insurance	100	100	AUD	22.8
Austria						
Zürich Versicherungs-Aktiengesellschaft	Vienna	General Insurance	99.98	99.98	EUR	12.0
Bermuda						
Centre Group Holdings Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
CMSH Limited	Hamilton	Non-Core Businesses	100	100	USD	0.3
ZCM Holdings (Bermuda) Limited	Hamilton	Non-Core Businesses	100	100	USD	137.0
ZG Investments Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
ZG Investments II Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
ZG Investments III Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
ZG Investments IV Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
Zurich Finance (Bermuda) Ltd.	Hamilton	Other Operating Businesses	100	100	USD	0.01
Zurich International (Bermuda) Ltd.	Hamilton	Non-Core Businesses	100	100	USD	9.9
Brazil						
Zurich Minas Brasil Seguros S.A.	Belo Horizonte	General Insurance	100	100	BRL	359.7
Chile						
Chilena Consolidada Seguros Generales S.A.	Santiago	General Insurance	89.87	89.87	CLP	10,267.0
Chilena Consolidada Seguros de Vida S.A.	Santiago	Global Life	98.98	98.98	CLP	24,484.0
Cyprus						
Zurich Insurance Holding (Cyprus) Ltd ²	Nicosia	General Insurance	100	100	RUB	2.7
Germany						
Deutscher Herold Aktiengesellschaft ³	Bonn	Global Life	79.83	79.83	EUR	18.4
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt/Main	General Insurance	100	100	EUR	152.9
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	Bonn	Global Life	86.37	86.37	EUR	68.5
Ireland						
Zurich Life Assurance plc	Dublin	Global Life	100	100	EUR	17.5
Zurich Financial Services EUB Holdings Limited	Dublin	Non-Core Businesses	100	100	GBP	0.001
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Zurich Insurance plc	Dublin	General Insurance	100	100	EUR	8.2
Italy						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	74.0
Zurich Life and Pensions S.p.A.	Milan	Global Life	100	100	EUR	40.5
Zurich Life Insurance Italia S.p.A.	Milan	Global Life	100	100	EUR	25.9

¹ The segments are defined in the notes to the Consolidated financial statements, note 30, Segment information.

² Zurich Insurance Holding (Cyprus) Ltd holds 99.9% of Zurich Insurance Company Ltd. in Russia which is a fully owned subsidiary of the Group.

³ In addition buy out options exist which allow the minority shareholders to sell another 15.17 percent of the shares of Deutscher Herold Aktiengesellschaft to the Group.

Significant subsidiaries
(continued)

as of December 31, 2010						Nominal value of common stock (in local currency millions)
	Domicile	Segment	Voting rights %	Ownership interest %		
Luxembourg						
Zurich Eurolife S.A.	Howald	Global Life	100	100	EUR	12.0
Zurich Finance (Luxembourg) S.A.	Howald	Other Operating Businesses	100	100	EUR	0.1
Zurich Group Funding Luxembourg S.A.	Howald	Other Operating Businesses	100	100	EUR	5.03
South Africa						
Zurich Insurance Company South Africa Limited ⁴	Johannesburg	General Insurance	58.95	58.95	ZAR	3.0
Spain						
Bansabadell Pensiones, E.G.F.P, S.A.	Barcelona	Global Life	50	50	EUR	7.8
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Barcelona	General Insurance	50	50	EUR	10.0
Bansabadell Vida S.A. de Seguros y Reaseguros	Barcelona	Global Life	50	50	EUR	43.9
Zurich Vida, Compañía de Seguros y Reaseguros, S.A. – Sociedad Unipersonal	Madrid	Global Life	100	100	EUR	50.4
Switzerland						
Genevoise Real Estate Company Ltd	Geneva	Global Life	100	100	CHF	17.0
Zurich Insurance Company Ltd ⁵	Zurich	Other Operating Businesses	100	100	CHF	825.0
Zurich Life Insurance Company Ltd ⁶	Zurich	Other Operating Businesses	100	100	CHF	60.0
"Zurich" Investment Management AG	Zurich	Other Operating Businesses	100	100	CHF	10.0
Taiwan						
Zurich Insurance (Taiwan) Ltd.	Taipei	General Insurance	99.73	99.73	TWD	2,000.0
Turkey						
Zurich Sigorta A.S.	Findikli, Istanbul	General Insurance	100	100	TRY	83.5
United Kingdom						
Allied Zurich Holdings Limited	Jersey, Channel Islands	Other Operating Businesses	100	100	GBP	90.7
Eagle Star Insurance Company Limited	Fareham, England	Non-Core Businesses	100	100	GBP	40.0
Sterling ISA Managers Limited	Swindon, England	Global Life	100	100	GBP	92.9
Zurich Assurance Ltd	Swindon, England	Global Life	100	100	GBP	236.1
Zurich Financial Services (UKISA) Limited	Swindon, England	Other Operating Businesses	100	100	GBP	1,492.1
Zurich Holdings (UK) Limited	Fareham, England	Other Operating Businesses	100	100	GBP	137.3
Zurich International Life Limited	Douglas, Isle of Man	Global Life	100	100	GBP	105.6
Zurich Specialties London Limited	Fareham, England	Non-Core Businesses	100	100	GBP	150.0

⁴ Listed on the Johannesburg Stock Exchange. On December 31, 2010, the company had a market capitalization of ZAR 2.2 billion (ISIN Number 000094496).

⁵ The result of the operative activities is included in the General Insurance segment, whereas the headquarter's activities are part of Other Operating Businesses.

⁶ The result of the operative activities is included in the Global Life segment, whereas the headquarter's activities are part of Other Operating Businesses.

Significant subsidiaries *continued*

Significant subsidiaries (continued)	as of December 31, 2010					Nominal value of common stock (in local currency millions)
	Domicile	Segment	Voting rights %	Ownership interest %		
United States of America						
Farmers Group, Inc.	Reno, NV	Farmers	98.28	100	USD	0.001
Farmers New World Life Insurance Company	Mercer Island, WA	Global Life	98.28	100	USD	6.6
Farmers Reinsurance Company	Los Angeles, CA	Farmers	98.28	100	USD	5.0
Farmers Services LLC ⁷	Wilmington, DE	Farmers	100	100	USD	–
Zurich American Corporation	Wilmington, DE	Non-Core Businesses	100	100	USD	0.00001
Zurich American Life Insurance Company	Schaumburg, IL	Non-Core Businesses	100	100	USD	2.5
ZFS Finance (USA) LLC V ⁷	Wilmington, DE	Other Operating Businesses	100	100	USD	–
Zurich American Insurance Company (and subsidiaries)	New York, NY	General Insurance	100	100	USD	5.0
Zurich Finance (USA), Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	0.000001
Zurich Holding Company of America, Inc.	Wilmington, DE	Other Operating Businesses	100	100	USD	0.0

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