

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-US PERSONS AND ADDRESSEES OUTSIDE OF THE US

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND, SUBJECT TO CERTAIN EXCEPTIONS, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT).

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Confirmation of your Representation: In order to be eligible to review this Prospectus or make an investment decision with respect to the securities described herein, investors must not be a US Person (as defined in Regulation S under the Securities Act). You have been sent the attached Prospectus on the basis that you have confirmed to UBS Investment Bank, being the sender of the attached, (i) that you and any customers that you represent are not US Persons, (ii) that the electronic mail (or e-mail) address to which it has been delivered is not located in the United States of America, its territories and possessions, any State of the United States or the District of Columbia (where "possessions" include Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) and (iii) that you consent to delivery by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. Also, there are restrictions on the distribution of the attached Prospectus and/or the offer or sale of Notes in the member states of the European Economic Area. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction. The Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of UBS Investment Bank, the Syndicate Banks or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from UBS Investment Bank, if lawful.



Zurich Insurance Company Ltd

4.25% Undated Subordinated Notes CHF 700 million (the “Notes”)

Programme for the Issuance of Notes:	Issued under the U.S.\$15,000,000,000 Euro Medium Term Note Programme of the Issuer dated 11 June 2010 (the “Programme”).
Issuer's Name and registered office:	Zurich Insurance Company Ltd, Mythenquai 2, CH-8002 Zurich, Switzerland (the “Issuer”)
Interest Rate:	4.25% fixed rate with first interest payment date 26 May 2011, payable annually until 26 May 2016. Thereafter, if not called, 3-month CHF Libor plus reoffer spread of 304.6bps, payable quarterly for the first time on 26 August 2016. No step-up.
Issue Price:	101.00% of their nominal amount (before commission)
Placement Price:	The placement price of the Notes will be fixed in accordance with supply and demand.
Payment Date:	26 November 2010
Redemption:	Callable perpetual (earliest possible call at par on 26 May 2016 and each subsequent interest payment date thereafter).
Early Redemption:	Following a Capital Event, Regulatory Event or for Tax Reasons at CHF 5,000 per Note in accordance with the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes (the “Terms and Conditions”).
Reopening of the Issue:	The Issuer reserves the right to reopen this issue according to the terms and conditions of the Notes.
Denominations:	CHF 5,000 nominal and multiples thereof
Form of the Notes:	The Notes will be represented by a Permanent Global Note. Noteholders do not have the right to request the printing and delivery of definitive Notes.
Ranking on a winding-up:	Subordinated to all Senior Creditors of the Issuer and in priority of any share capital. The Notes will rank pari passu with all other Dated and Undated Subordinated Notes and Type A Capital Notes but will rank in advance of any Type B Capital Notes (please refer to Condition 2 of the Terms and Conditions for full details).
Listing:	Listing will be applied for on the Standard for Bonds of the SIX Swiss Exchange. The Notes are expected to be provisionally admitted to trading on the SIX Swiss Exchange on 25 November 2010. The last trading date will be the third business day prior to redemption, if and when due.
Governing Law and Jurisdiction:	The Notes are governed by, and construed in accordance with English law (other than the provisions relating to Undated Subordinated Notes of Condition 2 of the Terms and Conditions which will be governed, and construed in accordance with Swiss law). Place of jurisdiction for the Notes and all related contractual documentation shall be the Courts in England, additionally Commercial Court of Zurich.
Sales Restrictions	In particular U.S.A., U.S. persons, United Kingdom, EEA, Ireland, Luxembourg and Japan.
Rating:	Notes issued under the Programme are rated «A» by Standard & Poor's and «A3» by Moody's.
Security Number / ISIN / Common Code	11.760.651 / CH0117606514 / 055925127

UBS Investment Bank

Credit Suisse

Deutsche Bank AG London Branch, acting through Deutsche Bank AG Zurich Branch

Royal Bank of Scotland plc, Edinburgh, Zurich Branch

SELLING RESTRICTIONS

In particular U.S.A., U.S. persons, United Kingdom, EEA, Ireland, Luxembourg and Japan. For further information and the full text, which is solely relevant, please refer to pages 147–151 of Annex A hereof.

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GENERAL INFORMATION

Notice to Investors

These Notes are issued under the Programme of the Issuer. The specific terms of the Notes contained in the Final Terms dated 24 November 2010 (the "Final Terms") must be read in conjunction with the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes (the "Terms and Conditions") contained in the base prospectus dated 11 June 2010 (the "Base Prospectus") which is reprinted in this Listing Prospectus (Annex A). Each of the Final Terms and the Base Prospectus is deemed to form part of this Listing Prospectus; provided that the Base Prospectus and the Terms and Conditions shall be deemed to be modified or superseded to the extent a statement herein or in the Final Terms modifies or supersedes a statement in the Base Prospectus or the Terms and Conditions. Capitalized terms used in this Listing Prospectus and not otherwise defined shall have the meanings assigned thereto in the Final Terms or the Base Prospectus, as applicable. Information on the Issuer is also contained in this Listing Prospectus. Investors are advised to familiarise themselves with the entire content of this document. The financial institutions involved in the issuance and offering of these Notes are banks, which directly or indirectly have participated, or may participate, in financing transactions and/or other banking business with the Issuer, which are not disclosed herein.

Documents Available

Copies of this Listing Prospectus are available at UBS AG, Prospectus Library, P.O. Box, CH-8098 Zurich, Switzerland, or can be ordered by telephone (+41-44-239 47 03), fax (+41-44-239 69 14) or by e-mail swiss-prospectus@ubs.com.

Listing Prospectus

This Listing Prospectus is available in English language only and provides information about the Issuer and the Notes. This Listing Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

No person has been authorized to give any information or make any representation in connection with the offering of the Notes other than as stated herein and any other information or representation if given or made should not be relied upon as having been authorized by the Issuer, the Syndicate Banks or any of the Dealers (as defined in the Programme). Neither the delivery of this Listing Prospectus, nor the issue of the Notes nor any sale thereof shall, in any circumstances, create any implication that there has been no material adverse change in the affairs of the Issuer since the date hereof.

INFORMATION ABOUT THE NOTES

Authorisation

Pursuant to a resolution of the Board of Directors of the Issuer dated 5 August 2010 and the Subscription Agreement dated 24 November 2010 between the Issuer, the Joint-Lead Managers and the Co-Lead Manager, the Issuer has decided to issue 4.25% Undated Subordinated Notes CHF 700 million to be paid on 26 November 2010 (the "Notes").

Use of Net Proceeds

The net proceeds of the Notes, being the amount of CHF 695,655,000.00 (the "Net Proceeds") will be used to refinance subordinated debt with an early redemption option and for general corporate purposes. None of the banks shall have any responsibility for, or be obliged to concern itself with, the application of the Net Proceeds of the Notes.

Notices

All notices in relation to the Notes will be published in electronic form on the internet site of the SIX Swiss Exchange under the section headed Official Notices (http://www.six-exchange-regulation.com/publications/notices_en.html).

Representation

In accordance with Article 43 of the Listing Rules of the SIX Swiss Exchange, UBS AG has been appointed by the Issuer as representative to lodge the listing application with the SIX Swiss Exchange.

INFORMATION ABOUT THE ISSUER

For information with respect to the Issuer, please refer to the EMTN Base Prospectus dated 11 June 2010 (Annex A), pages 109 to 120. All terms with initial capitals used herein without definition have the meanings given to them in the Base Prospectus.

Additional Information about the Issuer

Dividends paid by the Issuer

The Issuer did not pay any dividends in 2010 and 2009. In 2008 it paid a dividend of CHF 1.9 billion and in 2007 a dividend of CHF 1.3 billion. It did not pay any dividends in the years 2006 and 2005.

Recent developments

In September 2010, impairment charges of USD 104 million were recorded in the income statement of Zurich Insurance Group ("the Group" or "ZIG") as a result of revised cash flow assumptions in the Russian operations of the Group.

On 27 October 2010, ZFS Group announced that it has signed an agreement to participate in a private share subscription and capital increase program in respect of New China Life Insurance Co., Ltd. ("NCI"). As part of this program, ZFS Group will purchase up to 280 million new NCI shares at a fixed price of RMB 10 per share, or a total of up to USD 420 million. The transaction seeks to maintain ZFS Group's current 20 percent ownership stake in NCI.

On 4 November 2010, ZFS Group announced the publication of its unaudited consolidated first nine-month results in 2010.

On 8 November 2010, ZFS Group announced that it has exercised its option to early redeem USD 1 billion of subordinated debt issued in December 2005 by ZFS Finance (USA) Trust I and ZFS Finance (USA) Trust III. The redemption will be done at par together with accrued interest on 15 December 2010.

In 2008, ZIG acquired 50.0 percent interests in life and general insurance companies of, and entered into distribution agreements with, several banks and savings institutions. One of these savings institutions, Caixa d'Estalvis de Sabadell merged into Caixa d'Estalvis Unió de Caixes de Manlleu, Sabadell i Terrassa (Unnim) as of 1 July 2010. The Group has pursued an exit of its Unnim related engagements in CaixaSabadell Vida, S.A. de Seguros y Reaseguros and CaixaSabadell Companyia d'Assegurances Generals, S.A. and has lost control from an accounting perspective. Therefore the Group has derecognized the assets and liabilities at their carrying amount and has recognized its retained investment in these companies as an equity security classified as available-for-sale as of 30 September 2010. On 17 November 2010, it was announced that ZIG entered into a definitive agreement to sell back to Unnim its 50.0 percent interests in the above mentioned insurance companies for a cash consideration of USD 388 million (EUR 285 million). Completion is subject to customary regulatory clearances and is expected in the first quarter of 2011. As more details emerge, the Group continues to review and assess the effects of related industry developments on its distribution agreements in place with other banking institutions.

On 18 November 2010, A.M. Best upgraded the financial strength rating (FSR) of Zurich Insurance Company Ltd to A+ (Superior) from A (Excellent) and issuer credit rating (ICR) to "aa-" from "a+".

Audited financial statements of the Issuer as of 31 December 2009:

Note 15 "Supplementary information" on page 188 of Zurich Insurance Company Ltd's Financial Statements erroneously disclosed an amount of CHF 14,445 million for "Guarantees, indemnity liabilities and pledges in favor of third parties" instead of the correct amount of CHF 16,103 million.

Changes to the Executive Board of the Issuer:

Effective 1 September 2010, Christian Orator (Swiss and Austrian citizen) was appointed Chief Administrative Officer. He is succeeding Richard P. Kearns, who is retiring early next year.

Effective of the same date, Markus Nordlin (Finnish and U.S. citizen) was appointed to the position of Chief Information Technology Officer. He succeeds Michael Markus Paravicini, who retired.

Markus Hongler, CEO Western Europe and CEO Zurich Insurance public limited company (ZIP), will leave the Group at the end of 2010 and Peter Goerke, Group Head of Human Resources, will leave the Group at the end of the first quarter 2011. John Amore, Senior Advisor and member of the Executive Board, will be retiring effective 31 December 2010.

Potential Acquisition Opportunities:

The Issuer has been exploring and continues to explore potential acquisition opportunities.

Court, arbitral and administrative proceedings

On 7 October 2010, the ZFS 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 up to 13 million policyholders who may qualify for a distribution under the settlement, with any residual amount going to the Farmers Exchanges. The ZFS Group will also pay attorneys' fees to class action counsel of up to USD 90 million. All terms of the proposed settlement are subject to execution of a formal settlement agreement, which then must be presented to the court for certification of a settlement class and approval of the proposed settlement.

In the Converium litigation, ZFS's and Converium's proposed non-US settlements were submitted to the Amsterdam Court of Appeal on 9 July 2010.

In the Fuller Austin litigation, the initial bench trial, which had previously been postponed, commenced on 1 November 2010 in Superior Court in San Francisco, California. The hearing on certain pretrial arguments was held on 26 August 2010; the judge denied both plaintiffs' and defendants' motions.

Update regarding API, Inc. Asbestos Settlement Trust et al. v. Zurich American Insurance Company ("ZAIC") et al.: The court denied the Defendants request for permission to file a motion for reconsideration of the court's ruling on that part of the Defendants motion for judgment on the pleadings relating to the statute of limitations defense. On 30 September 2010, the court ruled on the motion to dismiss the amended complaint, and dismissed plaintiff's 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 31st ruling – was denied as to the remaining claims, as the court found that plaintiff's vicarious liability theories could not be disposed of on a motion to dismiss. Pretrial discovery is continuing. According to the court's scheduling order, the action is to be "trial ready" by May 2011.

In the Office Depot litigation, on 23 September 2010, ZAIC and its subsidiaries entered into a confidential settlement agreement with plaintiff pursuant to which Zurich agreed to settle the claims made in the litigation. The Zurich defendants did not admit to any violation of US or state laws as part of this settlement.

Save as disclosed in this Listing Prospectus, the Issuer, to the best of its knowledge, is not or has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer.

Material changes since the most recent interim financial statements

Except as disclosed in this Listing Prospectus, there has been no material adverse change in the financial condition or operations of the Issuer since 30 September 2010, which would materially affect its ability to carry out its obligations under the Notes.

RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for the information contained in this Listing Prospectus, and declares that, having taken all reasonable care to ensure that such is the case, to the best of its knowledge, the information contained in this Listing Prospectus is correct and that no material facts or circumstances have been omitted.

Zurich, 24 November 2010

Zurich Insurance Company Ltd

Zurich Insurance Company Ltd

FINAL TERMS

Final Terms dated 24 November 2010

Zurich Insurance Company Ltd
Issue of CHF 700,000,000 4.25% Undated Subordinated Notes
under the USD15,000,000,000
Euro Medium Term Note Programme

The Listing Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented Directive 2003/71/EC (the “**Prospectus Directive**”) (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. None of the Issuer nor any Manager has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances.

Part A Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 11 June 2010 which constitutes a base prospectus for the purposes of the Prospectus Directive. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms, the Base Prospectus and the listing prospectus dated 24 November 2010 prepared in connection with the listing of the Notes on the SIX Swiss Exchange Ltd (together, the “**Listing Prospectus**”). Copies of the Base Prospectus and the Listing Prospectus are available for viewing during normal business hours at Zurich Insurance Company Ltd, Mythenquai 2, CH-8002 Zurich, Switzerland.

1	Issuer:	Zurich Insurance Company Ltd
2	(i) Series Number:	20
	(ii) Tranche Number:	1
3	Specified Currency or Currencies:	Swiss Francs (“CHF”)
4	Aggregate Nominal Amount of Notes admitted to trading:	CHF 700,000,000
	(i) Series:	CHF 700,000,000
	(ii) Tranche:	CHF 700,000,000
5	Issue Price:	101.00 per cent. of the Aggregate Nominal Amount
6	Specified Denominations:	CHF 5,000
	Calculation Amount:	CHF 5,000
7	(i) Issue Date:	26 November 2010
	(ii) Interest	Issue Date

Commencement Date:

8	Maturity Date:	Not Applicable
9	(i) Interest Basis:	4.25 per cent. Fixed Rate up to but excluding the First Call Date as defined below; and 3 month CHF LIBOR + 3.046 per cent. thereafter (further particulars specified below)
	(ii) Optional Deferral of interest for Subordinated Notes:	Applicable.
	(iii) Optional Deferral limited to 5 years upon loss of regulatory capital credit:	Yes
	(iv) Solvency Deferral of interest for Subordinated Notes:	Applicable
	(v) Relevant Entity:	ZIC and/or ZFS
	(vi) Arrears of Interest payable at any time at Issuer's election:	Yes, in whole or in part
10	Redemption/Payment Basis:	Redemption at par
11	Change of Interest or Redemption/Payment Basis:	In respect of the period from and including the Issue Date, to but excluding the Interest Payment Date falling on 26 May 2016 (the " First Call Date "), 4.25 per cent. per annum and thereafter, from and including the First Call Date, 3 month CHF LIBOR + 3.046 per cent. per annum.
12	Call Option:	Issuer Call (further particulars specified below)
13	(i) Status of the Notes:	Undated Subordinated Notes
	(ii) Status of the Guarantee:	Not Applicable
	(iii) Date Board approval for issuance of Notes obtained:	5 August 2010
	(iv) Guarantee Amount:	Not Applicable
14	Method of distribution:	Syndicated
15	Condition 7(d)(vi) to apply:	Not applicable
16	Initial Permitted Non-Qualifying Lender:	Not Applicable

Provisions Relating to Interest (if any) Payable

17	Fixed Rate Note Provisions:	Applicable
(i)	Rate of Interest:	4.25 per cent. per annum payable annually in arrear
(ii)	Interest Payment Date(s):	26 May in each year commencing on 26 May 2011 until and including the First Call Date
(iii)	Fixed Coupon Amount:	CHF 212.50 per Calculation Amount
(iv)	Broken Amount(s):	CHF 106.25 per Calculation Amount, payable on 26 May 2011 in respect of the period from and including the Issue Date to but excluding 26 May 2011
(v)	Day Count Fraction:	30/360
(vi)	Determination Dates:	Not Applicable
(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
18	Floating Rate Note Provisions:	Applicable
(i)	Interest Period(s):	Floating rate interest will be payable in respect of the period from and including the First Call Date to but excluding the First Interest Payment Date and thereafter for each period from and including an Interest Payment Date to but excluding the next Interest Payment Date (all as defined below)
(ii)	Specified Interest Payment Dates:	26 May, 26 August, 26 November and 26 February in each year from and including the First Interest Payment Date to and including the date fixed for redemption
(iii)	First Interest Payment Date:	26 August 2016 (being the first Interest Payment Date following the First Call Date)
(iv)	Business Day Convention:	Modified Following Business Day Convention
(v)	Additional Business Centre(s):	Not Applicable
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	Screen Rate Determination
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest	Not Applicable

	Amount(s) (if not the Agent):	
(viii)	Screen Rate Determination:	
	– Reference Rate:	3 month CHF LIBOR
	– Interest Determination Date(s):	The second London banking day prior to the first day of each relevant Interest Period
	– Relevant Screen Page:	LIBOR 2
(ix)	ISDA Determination:	Not Applicable
(x)	Margin(s):	+ 3.046 per cent. per annum
(xi)	Minimum Rate of Interest:	Not Applicable
(xii)	Maximum Rate of Interest:	Not Applicable
(xiii)	Day Count Fraction:	Actual/360
(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	Not Applicable
19	Zero Coupon Note Provisions:	Not Applicable
20	Index-Linked Interest Note/other variable-linked interest Note Provisions:	Not Applicable
21	Dual Currency Note Provisions:	Not Applicable
Provisions Relating to Redemption		
22	Call Option:	Applicable, subject to the provisions of paragraph 36 below.
	(i) Optional Redemption Date(s):	Callable on the First Call Date and any Interest Payment Date thereafter
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of	CHF 5,000 per Calculation Amount

	such amount(s):	
(iii)	If redeemable in part:	
(a)	Minimum Redemption Amount:	Not Applicable
(b)	Maximum Redemption Amount:	Not Applicable
(iv)	Notice period:	Not less than 15 nor more than 30 days
(v)	Redemption of Subordinated Notes for Capital Event:	Applicable
(vi)	Redemption of Subordinated Notes for Regulatory Event:	Applicable
(vii)	Regular Redemption Price:	CHF 5,000 per Calculation Amount
(viii)	Special Redemption Price:	Not Applicable
23	Put Option:	Not Applicable
24	Final Redemption Amount of each Note:	CHF 5,000 per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:	
(i)	Index/Formula/variable :	Not Applicable
(ii)	Calculation Agent responsible for calculating the Final Redemption Amount:	Not Applicable
(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	Not Applicable
(iv)	Determination Date(s):	Not Applicable
(v)	Provisions for determining Final	Not Applicable

	Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	
	(vi) Payment Date:	Not Applicable
	(vii) Minimum Final Redemption Amount:	Not Applicable
	(viii) Maximum Final Redemption Amount:	Not Applicable
25	Early Redemption Amount:	
	Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	CHF 5,000 per Calculation Amount
26	Instalment Amount:	Not Applicable
27	Maturity Date of Dated Subordinated Notes extended upon a Solvency Event in accordance with Condition 6(a):	Not Applicable
28	Form of Notes:	<p>Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note.</p> <p>The Notes and all rights in connection therewith are documented in the form of a Permanent Global Note (the "Permanent Global Note") which shall be deposited by UBS AG (the "Principal Swiss Paying Agent") with SIX SIS Ltd or any other intermediary in Switzerland recognised for such purposes by SIX Swiss Exchange Ltd (SIX SIS Ltd or any such other intermediary, the "Intermediary"). Once the Permanent Global Note is deposited with the Intermediary and entered into the accounts of one or more participants of the Intermediary, the Notes will constitute intermediated securities (<i>Bucheffekten</i>) ("Intermediated Securities") in</p>

accordance with the provisions of the Swiss Federal Intermediated Securities Act.

Each Holder (as defined below) shall have a quotal co-ownership interest (*Miteigentumsanteil*) in the Permanent Global Note to the extent of its claim against the Issuer, provided that for so long as the Permanent Global Note remains deposited with the Intermediary the co-ownership interest shall be suspended and the Notes may only be transferred by entry of the transferred Notes in a securities account of the transferee.

Neither the Issuer nor the Holders (as defined below) shall at any time have the right to effect or demand the conversion of the Permanent Global Note (*Globalurkunde*) into, or the delivery of, uncertificated securities (*Wertrechte*) or definitive Notes (*Wertpapiere*).

The records of the Intermediary will determine the number of Notes held through each participant in that Intermediary. In respect of the Notes held in the form of Intermediated Securities, the holders of the Notes (the "**Holders**" and each a "**Holder**") will be the persons holding the Notes in a securities account (*Effektenkonto*) which is in their name, or in case of intermediaries (*Verwahrungsstellen*), the intermediaries (*Verwahrungsstellen*) holding the Notes for their own account in a securities account (*Effektenkonto*) which is in their name.

No physical delivery of the Notes shall be made unless and until definitive Notes (*Wertpapiere*) shall have been printed. Notes may only be printed, in whole, but not in part, if the Principal Swiss Paying Agent determines, upon consultation with the Issuer, that the printing of the definitive Notes (*Wertpapiere*) is necessary or useful. Should the Principal Swiss Paying Agent so determine, it shall provide for the printing of definitive Notes (*Wertpapiere*) without cost to the Holders. If printed, the definitive Notes (*Wertpapiere*) shall be executed by affixing thereon the facsimile signature of two authorised officers of the Issuer. Upon delivery of the definitive Notes (*Wertpapiere*), the Permanent Global Note will immediately be cancelled by the Principal Swiss Paying Agent and the definitive Notes (*Wertpapiere*) shall be delivered to the Holders against cancellation of the Notes in the

		Holders' securities accounts.
29	New Global Note Form:	No
30	Payment Business Centre(s) or other special provisions relating to Payment Days for the purpose of Condition 5(c):	Zurich
31	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Yes, one Talon attached to each Definitive Note on issue. Each Talon will mature on the twenty fifth Interest Payment Date following the issue date of the Definitive Note to which such Talon appertains.
32	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
33	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	Not Applicable
34	Consolidation provisions:	
	(i) Listed Swiss Franc Note:	Yes
	(ii) Identity of Principal Swiss Paying Agent and other Swiss Paying Agents:	UBS AG as Principal Swiss Paying Agent, Credit Suisse AG and The Royal Bank of Scotland plc, Edinburgh, Zurich Branch as Swiss Paying Agents
35	Relevant Jurisdictions:	As set out in the Conditions
36	Other final terms:	<p>So long as the Notes are listed on the SIX Swiss Exchange and so long as the rules of the SIX Swiss Exchange so require, the Issuer will at all times maintain a Swiss Paying Agent having a specified office in Switzerland and will at no time maintain a Paying Agent having a specified office outside Switzerland in relation to such Notes.</p> <p>Condition 11 shall be construed accordingly.</p> <p>So long as the Notes are listed on the SIX Swiss Exchange and so long as the rules of the SIX Swiss Exchange so require, all notices in respect</p>

of the Notes will be validly given through the Swiss Paying Agent (i) by means of electronic publication on the internet website of the SIX Swiss Exchange (www.six-swiss-exchange.com/marketpulse/news/official_notices_en.html) or (ii) otherwise in accordance with the regulations of the SIX Swiss Exchange.

Condition 13 shall be construed accordingly.

In respect of the Subordinated Notes:

(a) The first and third paragraphs of Condition 9(b)(ii) are deleted and replaced with the following:

"(ii) *Proceedings for Winding-up*

If the Notes become due and repayable (whether pursuant to Condition 9(b)(i), Condition 6(c) or 6(d) or 6(e) or otherwise) and are not paid when so due and repayable, the Trustee may at its discretion participate in, but not itself institute, proceedings for the winding-up of the Issuer and may take no further action to enforce the obligations of the Issuer for payment of any principal or interest (including Arrears of Interest, if any) in respect of the Notes.

No payment in respect of the Notes may be made by the Issuer pursuant to Condition 9(b)(i), nor will the Trustee accept the same, otherwise than during or after a winding-up of the Issuer."

(b) Reference to "Condition 9(b)(iii)" in Condition 15(a) shall be to "Condition 9(b)".

37 Restricted Note (Condition 10(j) shall apply):

No

Distribution

38 (i) If syndicated, names of Managers:

Credit Suisse AG
Deutsche Bank AG London Branch acting through Deutsche Bank AG Zurich Branch
The Royal Bank of Scotland plc, Edinburgh, Zurich Branch
UBS AG

(ii) Stabilising Manager(s) (if any):

Not Applicable

39 If non-syndicated, name of Dealer:

Not Applicable

40 US Selling Restrictions: TEFRA D in accordance with usual Swiss practice (the Notes shall be issued pursuant to the exemptions from the certification requirements under the TEFRA rules)

41 Additional selling restrictions: **Switzerland**
Each Manager has represented and agreed that it shall ensure that any offer or on-selling into Switzerland is made on the basis of the Listing Prospectus.

European Economic Area (EEA)

For the avoidance of doubt, the following selling restriction replaces in its entirety the EEA selling restriction in the Base Prospectus.

Each of the Managers has represented and agreed that it will not, directly or indirectly, offer and/or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction relating to the Notes, otherwise than in compliance with the exceptions set out in:

- (i) Article 3(2)(a) (an offer addressed solely to qualified investors), and/or
- (ii) an offer of securities to investors for a consideration of at least EUR100,000 per investor, which thereby complies with Article 3(2)(c),

in each case of the Prospectus Directive as implemented in any relevant member state of the EEA, and all other applicable laws and regulations, and in circumstances which shall not result in a requirement for the publication by any person of a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer of such Notes.

Listing and Admission to Trading Application

These Final Terms comprise the final terms required for listing and issue and admission to trading on the SIX Swiss Exchange of the Notes described herein pursuant to the USD 15,000,000,000 Euro Medium Term Note Programme of the Issuer.

Responsibility

The Issuer accepts responsibility for the information contained in these Final Terms and hereby certify that to the best of its knowledge and belief, the information contained herein is correct and that no material facts have been omitted.

Signed on behalf of the Issuer:

By: _____

Duly authorised

By: _____

Duly authorised

Part B Other Information

1 Listing and Admission to Trading

- | | | |
|-------|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (i) | Listing: | SIX Swiss Exchange. |
| (ii) | Admission to trading: | <p>Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the SIX Swiss Exchange with effect from 25 November 2010.</p> <p>Application for definitive listing on the SIX Swiss Exchange will be made by the Issuer (or on its behalf) for the Notes as soon as possible thereafter. The last trading day of the Notes will be 3 trading days prior to redemption.</p> |
| (iii) | Estimate of total expenses related to admission to trading: | Approximately CHF 14,000. |

2 Ratings

- | | |
|----------|--------------------------------------------------------------|
| Ratings: | The Notes to be issued are rated A by S&P and A3 by Moody's. |
|----------|--------------------------------------------------------------|

3 Interests of Natural and Legal Persons Involved in the Issue

Save as discussed in "Subscription and Sale", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.

4 Reasons for the Offer, Estimated Net Proceeds and Total Expenses

- | | | |
|-------|---------------------------|--------------------------------------------------|
| (i) | Reasons for the offer: | See "Use of Proceeds" wording in Base Prospectus |
| (ii) | Estimated net proceeds: | CHF 695,655,000 |
| (iii) | Estimated total expenses: | CHF 11,345,000 |

5 Operational Information

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| ISIN Code: | CH0117606514 |
| Common Code: | 055925127 |
| Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme and the relevant identification number(s): | <p>SIX SIS Ltd, Olten, Switzerland</p> <p>Swiss Security Number: 11.760.651</p> |
| Delivery: | Delivery against payment |
| Names and addresses of initial Paying Agent(s): | Not Applicable |
| Names and addresses of additional | For the purposes of this Series of Notes only, the |

Paying Agent(s) (if any):

Issuer will, pursuant to a Supplemental Agency Agreement expected to be dated 24 November 2010, appoint UBS AG (the "**Principal Swiss Paying Agent**") as the Principal Swiss Paying Agent with its registered office located at the following address:

UBS AG
Bahnhofstrasse 45
CH-8045 Zurich
Switzerland

and Credit Suisse AG and The Royal Bank of Scotland plc, Edinburgh, Zurich Branch as Swiss paying agents (the "**Swiss Paying Agents**") with their registered offices located at the following address:

Credit Suisse AG
Paradeplatz 8
CH-8001 Zurich
Switzerland

and

The Royal Bank of Scotland plc, Edinburgh, Zurich Branch
Lerchenstrasse 24
CH-8045 Zurich
Switzerland

None of the existing Agents appointed under the Amended and Restated Agency Agreement dated 11 June 2010 as amended, supplemented and restated in connection with the Programme will act as paying agents for this Series of Notes and any reference in the Conditions to the "**Agent**" or the "**Paying Agents**" shall, so far as the context permits, be construed as references to the Principal Swiss Paying Agent and the other Swiss Paying Agents, respectively.

Intended to be held in NGN form:

No

6 Swiss federal withholding tax

Payments of interest on Notes (but not repayment of principal) will be subject to Swiss federal withholding tax at a rate of currently 35%.

The holder of a Note residing in Switzerland who, at the time the payment of interest is due, is the beneficial owner of the payment of interest and who duly reports the gross payment of interest in his or her tax return and, as the case may be, income statement, is entitled to a full refund or a full tax credit for the Swiss federal withholding tax.

A holder of a Note who is not resident in Switzerland may be able to claim a full or partial refund of the Swiss federal withholding tax by virtue of the provisions of an applicable double taxation treaty.

BASE PROSPECTUS

11 June 2010

Zurich Finance (Luxembourg) S.A.
(incorporated with limited liability in the Grand Duchy of Luxembourg)

Zurich Finance (USA), Inc.
(incorporated with limited liability in the State of Delaware, USA.)

Zurich Finance (UK) plc
(incorporated with limited liability in England and Wales)

Zurich Bank
(incorporated with unlimited liability in Ireland)

Zurich Insurance Company Ltd
(incorporated with limited liability in Switzerland)

irrevocably guaranteed, in the case of Notes issued by Zurich Finance (Luxembourg) S.A.,
Zurich Finance (USA), Inc., Zurich Finance (UK) plc and Zurich Bank by



Zurich Insurance Company Ltd USD 15,000,000,000 Euro Medium Term Note Programme

Under this USD15,000,000,000 Euro Medium Term Note Programme (the “**Programme**”), Zurich Finance (Luxembourg) S.A. (“**ZF (Luxembourg)**”), Zurich Finance (USA), Inc. (“**ZF (USA)**”), Zurich Finance (UK) plc (“**ZF (UK)**”), Zurich Bank (“**Zurich Bank**”) and Zurich Insurance Company Ltd (“**ZIC**”, and together with ZF (Luxembourg), ZF (USA), ZF (UK) and Zurich Bank, the “**Issuers**” and each, an “**Issuer**”) may from time to time issue notes (the “**Notes**”) denominated in any currency agreed between the relevant Issuer and the relevant Dealer (each as defined below). Issues of Notes under the Programme by ZF (Luxembourg), ZF (USA), ZF (UK) and Zurich Bank will be guaranteed as provided herein as to payments of principal, interest and additional amounts by ZIC (the “**Guarantee**” and the “**Guarantor**” respectively).

The Notes may be issued on a continuous basis to one or more of the Dealers below and any additional Dealer appointed under the Programme from time to time, which appointments may be for a specific issue or on an ongoing basis (each a “**Dealer**” and together the “**Dealers**”). References in this Base Prospectus to the “**relevant Dealer**” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes. References in this Base Prospectus to the “**relevant Issuer**” shall, in the case of any issue of Notes, be to the Issuer which has agreed to issue such Notes.

This document constitutes five base prospectuses (the “**Base Prospectus**”) for the purpose of Article 5.4 of Directive 2003/71/EC (the “**Prospectus Directive**”) and the applicable Final Terms (as defined on page 2) shall constitute Final Terms for the purpose of the Prospectus Directive.

This Base Prospectus has been approved by the Luxembourg *Commission de Surveillance du Secteur Financier* (the “**CSSF**”), which is the Luxembourg competent authority for the purpose of the Prospectus Directive as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in Luxembourg for the purpose of giving information with regard to the issue of notes (“**Notes**”) issued under the Euro Medium Term Note Programme (the “**Programme**”) described in this Base Prospectus during the period of twelve months after the date of publication hereof. Application has been made for Notes issued under the Programme to be admitted to trading on the regulated market and listed on the Official List of the Luxembourg Stock Exchange.

With respect to a particular Series (as defined on page 2) of Notes issued in registered form (“**Registered Notes**”), the Registered Notes of each Tranche (as defined on page 2) of such Series will be sold outside the United States in reliance on Regulation S under the United States Securities Act of 1933, as amended (the “**US Securities Act**”). Such Notes will be represented by a global note in registered form, without interest coupons (a “**Reg. S Global Note**”), which will be registered in the name of Citivc Nominees Limited as nominee for, and will be deposited with Citibank, N.A. as common depositary for, and in respect of interests held through, Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”). If a Reg. S Global Note is held under the New Safekeeping Structure (the “**NSS**”), the Reg. S Global Note will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear and Clearstream, Luxembourg. Prior to expiry of the period that ends 40 days after completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue (the “**distribution compliance period**”), beneficial interests in the Reg. S Global Note may not be offered or sold to, or for the account or benefit of, a US person (as defined in Regulation S under the US Securities Act), and may not be held otherwise than through Euroclear and Clearstream, Luxembourg. Registered Notes in individual form will be issued in exchange for interests in the Regulation S Global Note upon compliance with the procedures for exchange as described in “Form of the Notes and the Capital Notes” below in the limited circumstances described in the applicable Final Terms. Registered Notes in individual registered form from the date of issue may also be sold outside the United States in reliance on Regulation S under the US Securities Act.

Each Tranche of Notes issued in bearer form (“**Bearer Notes**”) (other than a Tranche of Listed Swiss Franc Notes, as to which see “Form of the Notes and the Capital Notes”) will initially be represented by a temporary bearer global note (a “**Temporary Global Note**”) or, if so specified in the applicable Final Terms, a permanent Global Note (a “**Permanent Global Note**”, together with the Temporary Global Note, the “**Bearer Global Notes**”) which if the Bearer Global Notes are not intended to be issued in new global note (“**New Global Note**”, or “**NGN**”) form, will be deposited on or around the relevant issue date with a common depositary (the “**Common Depositary**”) for Euroclear and Clearstream Luxembourg, and if the Bearer Global Notes are intended to be issued in NGN form, will be deposited on or around the relevant issue date with a Common Safekeeper for Euroclear and Clearstream, Luxembourg. Beneficial interests in a Temporary Global Note will be exchangeable for either beneficial interests in a Permanent Global Note or Definitive Bearer Notes upon certification as to non-US beneficial ownership as required by US Treasury Regulations and thereafter any Permanent Global Note may be exchanged for Definitive Bearer Notes in the circumstances described in the applicable Final Terms, in each case in accordance with the procedures described in “Form of the Notes and the Capital Notes” below.

Arranger
Citi

Dealers
Barclays Capital
BofA Merrill Lynch
Commerzbank
Credit Suisse
Goldman Sachs International
J.P. Morgan
The Royal Bank of Scotland
Zurich Bank

BNP PARIBAS
Citi
Crédit Agricole CIB
Deutsche Bank
HSBC
Morgan Stanley
UBS Investment Bank

Each of the Issuers accepts responsibility for the information contained in this Base Prospectus, and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

This Base Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference” below). This Base Prospectus shall, save as specified herein, be read and construed on the basis that such documents are so incorporated and form part of this Base Prospectus.

Notes will be issued in series (each a “**Series**”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “**Tranche**”) on different issue dates.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set forth in the final terms (the “**applicable Final Terms**”) which, with respect to Notes to be listed on a stock exchange, will be delivered to the stock exchange on or before the date of issue of the Notes of such Tranche. Notes that will not be admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system may also be issued pursuant to the Programme by any of the Issuers.

No representation, warranty or undertaking, express or implied, is made and to the fullest extent permitted by law the Dealers and the Trustee disclaim all responsibility or liability which they might otherwise have as to the accuracy or completeness of the information contained in this Base Prospectus or any other information provided by any Issuer in connection with the Programme or the Notes or their distribution. The statements made in this paragraph are made without prejudice to the responsibility of each Issuer under the Programme.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any Issuer, the Trustee or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by any Issuer, the Trustee or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer or ZIC (where ZIC is not the relevant Issuer). Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer by or on behalf of any Issuer, the Trustee or any of the Dealers to any person to subscribe for or to purchase any Notes.

The delivery of this Base Prospectus does not at any time imply that the information contained herein concerning the Issuers is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuers during the life of the Programme. Investors should review, inter alia, the most recently published audited annual financial statements and, if published later, the most recently published interim financial statements (if any) of the relevant Issuer and ZIC (where ZIC is not the relevant Issuer) when deciding whether or not to purchase any Notes.

The Notes have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and the Notes may include bearer Notes that are subject to US tax law requirements. Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S under the US Securities Act) except in accordance with Regulation S under the US Securities Act or pursuant to an exemption from the registration requirements of the US Securities Act (see “Subscription and Sale” below) and hedging transactions involving the Notes may not be conducted unless in compliance with the US Securities Act.

The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Trustee and the Dealers do not represent that this document may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Trustee or the Dealers which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither

this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made in compliance with applicable law. Persons into whose possession this Base Prospectus or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area, Ireland, the United Kingdom, Luxembourg and Japan (see “Subscription and Sale” below).

All references in this document to a “**Member State**” are references to a Member State of the European Economic Area, “**US dollars**”, “**US\$**”, “**\$**”, “**USD**” and “**US cent**” refer to the currency of the United States of America, those to “**euro**”, “**€**” and “**EUR**” are to the single currency adopted by those states participating in the European Monetary Union from time to time, those to “**Sterling**”, “**GBP**” and “**£**” refer to the currency of the United Kingdom, those to “**Swiss Francs**”, “**Sfr**” and “**CHF**” refer to the currency of Switzerland. References in this document to “**Listed Swiss Franc Notes**” are to Notes denominated or payable in Swiss Francs and listed on the SIX Swiss Exchange.

To ensure compliance with US Treasury Department Circular 230, noteholders are hereby notified that: (A) any discussion of US Federal Tax issues in this Base Prospectus is not intended or written to be relied upon, and cannot be relied upon, by Noteholders for the purpose of avoiding penalties that may be imposed on noteholders under the US Internal Revenue Code, (B) such discussion is included herein by the issuers in connection with the promotion or marketing (within the meaning of Circular 230) by the Issuers and the Dealers of the transactions or matters addressed herein and (C) Noteholders should seek tax advice based on their particular circumstances from an independent tax advisor.

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IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) IN THE RELEVANT FINAL TERMS (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) MAY OVERALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES OF THE SERIES OF WHICH SUCH TRANCHE FORMS PART AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

Documents Incorporated by Reference

The following documents, which have been filed with the CSSF and published and are available for viewing on the website of the Luxembourg Stock Exchange (www.bourse.lu), all in accordance with the Prospectus Directive, are incorporated in, and form part of, this Base Prospectus:

- (a) the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of ZIC and its subsidiaries (collectively the "**Zurich Insurance Group**" or "**ZIG**") in respect of the years ended 2009 and 2008 (the consolidated income statements being set out on pages 53 to 55 and 45 to 47, respectively, of its 2009 and 2008 annual reports; the consolidated balance sheets being set out on pages 56 to 57 and 48 to 49, respectively, of its 2009 and 2008 annual reports; the consolidated statements of cash flows being set out on pages 58 to 59 and 50 to 51, respectively, of its 2009 and 2008 annual reports; the consolidated statements of changes in equity being set out on pages 60 to 61 and 52 to 53, respectively, of its 2009 and 2008 annual reports; the notes to the financial statements being set out on pages 62 to 166 and 54 to 148, respectively, of its 2009 and 2008 annual reports; and the auditors' report being set out on pages 168 to 169 and 150 to 151, respectively, of its 2009 and 2008 annual reports).
- (b) the audited financial statements (including the auditors' report thereon and notes thereto) of ZIC, as included in the annual report of Zurich Insurance Group above, in respect of the years ended 2009 and 2008 (the income statements being set out on page 177 and 159, respectively, of its 2009 and 2008 annual reports; the balance sheets being set out on pages 178 to 179 and 160 to 161, respectively, of its 2009 and 2008 annual reports; the notes to the financial statements being set out on pages 180 to 188 and 162 to 169, respectively, of its 2009 and 2008 annual reports; and the auditors' report being set out on pages 190 to 191 and 172 to 173, respectively, of its 2009 and 2008 annual reports).
- (c) the audited financial statements (including the auditors' report thereon and notes thereto) of ZF (USA) in respect of the years ended 2009 and 2008 (the auditors' report being set out on pages 4 and 3, respectively, of its 2009 and 2008 annual reports; the balance sheets being set out on pages 5 and 4, respectively, of each of its 2009 and 2008 annual reports; the statements of operations being set out on pages 6 and 5, respectively, of its 2009 and 2008 annual reports; the statements of changes in equity being set out on pages 7 and 6, respectively, of its 2009 and 2008 annual reports; the statements of cash flow being set out on pages 8 and 7, respectively, of its 2009 and 2008 annual reports; and the notes to the financial statements being set out on pages 9 to 22 and 8 to 20, respectively, of its 2009 and 2008 annual reports).
- (d) the audited financial statements (including the auditors' report thereon and notes thereto) of ZF (UK) in respect of the years ended 2009 and 2008 and the Management Responsibility Statement as at 31 December 2009 dated 17 March 2010 (the auditors' report being set out on page 3 of each of its 2009 and 2008 annual reports; the profit and loss accounts being set out on page 4 of each of its 2009 and 2008 annual reports; the balance sheets being set out on page 5 of each of its 2009 and 2008 annual reports; and the notes to the financial statements being set out on pages 6 to 13 of each of its 2009 and 2008 annual reports).
- (e) the audited financial statements (including the auditors' report thereon and notes thereto) of ZF (Luxembourg) in respect of the years ended 2009 and 2008 (the auditors' report being set out on pages 2 to 3 and 1 to 2, respectively, of its 2009 and 2008 annual reports; the balance sheets being set out on pages 4 and 3, respectively, of its 2009 and 2008 annual reports; the profit and loss accounts being set out on pages 5 and 4, respectively, of its 2009 and 2008 annual reports; and the notes to the financial statements being set out on pages 6 to 11 and 5 to 10, respectively, of its 2009 and 2008 annual reports).
- (f) the audited consolidated financial statements (including the auditors' report thereon and the notes thereto) of Zurich Bank in respect of the years ended 2009 and 2008 (the auditors' report being set out on pages 9 to 10 and 8 to 9, respectively, of its 2009 and 2008 annual reports; the consolidated income statements being set out on pages 11 and 10, respectively, of its 2009 and 2008 annual reports; the consolidated balance sheets being set out on pages 12 and 11, respectively, of its 2009 and 2008 annual reports; the consolidated statements of changes in equity being set out on pages 14 and 13, respectively, of its 2009 and 2008 annual reports; the consolidated cash flow statements being set out on pages 16 and 15, respectively, of its 2009 and 2008 annual reports; and the notes to the financial statements being set out on pages 18 to 92 and 17 to 77, respectively, of its 2009 and 2008 annual reports).

None of the Issuers is subject to the reporting requirements of the United States Securities Exchange Act of 1934, as amended (the "**US Exchange Act**").

Each Issuer will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents incorporated herein by reference. Requests for such documents should be directed to the relevant Issuer or ZIC (where ZIC is not the relevant Issuer) at their respective offices set out at the end of this Base Prospectus. In addition, such documents will be available free of charge from the principal office of the listing agent being Dexia Banque Internationale à Luxembourg société anonyme (formerly Banque Internationale à Luxembourg S.A.) (the “**Luxembourg Listing Agent**”) for Notes listed on the Official List and traded on the regulated market of the Luxembourg Stock Exchange.

Information

Documents incorporated by reference of Zurich Insurance Group

Consolidated Income Statement for the year ended 31 December 2009.....	2009 Annual Report pages 53-55
Consolidated Income Statement for the year ended 31 December 2008.....	2008 Annual Report pages 45-47
Consolidated Balance Sheet as at 31 December 2009	2009 Annual Report pages 56-57
Consolidated Balance Sheet as at 31 December 2008	2008 Annual Report pages 48-49
Consolidated Statement of cash flows for the year ended 31 December 2009	2009 Annual Report pages 58-59
Consolidated Statement of cash flows for the year ended 31 December 2008	2008 Annual Report pages 50-51
Consolidated Statement of changes in equity for the year ended 31 December 2009	2009 Annual Report pages 60-61
Consolidated Statement of changes in equity for the year ended 31 December 2008	2008 Annual Report pages 52-53
Notes to the financial statements for the year ended 31 December 2009.....	2009 Annual Report pages 62-166
Notes to the financial statements for the year ended 31 December 2008.....	2008 Annual Report pages 54-148
Auditor’s report for the year ended 31 December 2009.....	2009 Annual Report pages 168-169
Auditor’s report for the year ended 31 December 2008.....	2008 Annual Report page 150-151

Documents incorporated by reference of Zurich Insurance Company Ltd

Income Statement for the year ended 31 December 2009.....	2009 Annual Report(*) page 177
Income Statement for the year ended 31 December 2008.....	2008 Annual Report(*) page 159
Balance Sheet as at 31 December 2009	2009 Annual Report(*) pages 178-179
Balance Sheet as at 31 December 2008	2008 Annual Report(*) pages 160-161
Notes to the financial statements for the year ended 31 December 2009.....	2009 Annual Report(*) pages 180-188
Notes to the financial statements for the year ended 31 December 2008.....	2008 Annual Report(*) pages 162-169
Auditor’s report for the year ended 31 December 2009.....	2009 Annual Report(*) pages 190-191
Auditor’s report for the year ended 31 December 2008.....	2008 Annual Report(*) pages 172-173

Documents incorporated by reference of Zurich Finance (USA)

Auditor’s report for the year ended 31 December 2009.....	2009 Annual Report page 4
Auditor’s report for the year ended 31 December 2008.....	2008 Annual Report page 3
Balance Sheet as at 31 December 2009	2009 Annual Report page 5
Balance Sheet as at 31 December 2008	2008 Annual Report page 4
Statement of Operations for the year ended 31 December 2009.....	2009 Annual Report page 6
Statement of Operations for the year ended 31 December 2008.....	2008 Annual Report page 5
Statement of changes in equity for the year ended 31 December 2009	2009 Annual Report page 7
Statement of changes in equity for the year ended 31 December 2008	2008 Annual Report page 6
Statement of cash flow for the year ended 31 December 2009.....	2009 Annual Report page 8
Statement of cash flow for the year ended 31 December 2008.....	2008 Annual Report page 7
Notes to the financial statements for the year ended 31 December 2009.....	2009 Annual Report pages 9-22
Notes to the financial statements for the year ended 31 December 2008.....	2008 Annual Report pages 8-20

Documents incorporated by reference of Zurich Finance (UK)

Auditor’s report for the year ended 31 December 2009.....	2009 Annual Report page 3
Auditor’s report for the year ended 31 December 2008.....	2008 Annual Report page 3
Profit and Loss Accounts for the year ended 31 December 2009.....	2009 Annual Report page 4
Profit and Loss Accounts for the year ended 31 December 2008.....	2008 Annual Report page 4
Balance Sheet as at 31 December 2009	2009 Annual Report page 5
Balance Sheet as at 31 December 2008	2008 Annual Report page 5
Notes to the financial statements for the year ended 31 December 2009.....	2009 Annual Report pages 6-13
Notes to the financial statements for the year ended 31 December 2008.....	2008 Annual Report pages 6-13
Management Responsibility Statement as at 31 December 2009	Management Responsibility Statement

Documents incorporated by reference of Zurich Finance (Luxembourg)

Auditor's report for the year ended 31 December 2009.....	2009 Annual Report pages 2-3
Auditor's report for the year ended 31 December 2008.....	2008 Annual Report pages 1-2
Balance Sheet as at 31 December 2009	2009 Annual Report page 4
Balance Sheet as at 31 December 2008	2008 Annual Report page 3
Profit and Loss Accounts for the year ended 31 December 2009.....	2009 Annual Report page 5
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Consolidated Income Statement for the year ended 31 December 2009.....	2009 Annual Report page 11
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(*) As included in the respective annual reports of Zurich Insurance Group above.

Any information not listed in the cross reference list above but included in the documents incorporated by reference, is given for information purposes only.

Each Issuer and ZIC (where ZIC is not the relevant Issuer) will, in connection with the listing on the Official List and trading of the Notes on the regulated market of the Luxembourg Stock Exchange so long as any Note remains outstanding and listed and traded on such exchange, in the event of any material adverse change in the financial condition of such Issuer or ZIC (where ZIC is not the relevant Issuer) which is not reflected in this Base Prospectus, prepare a supplement to this Base Prospectus (to be approved by the CSSF) in respect of the Notes issued by that Issuer or ZIC (where ZIC is not the relevant Issuer) to be listed on the Official List and traded on the regulated market of the Luxembourg Stock Exchange.

This Base Prospectus applies to issues of Notes made on and after 11 June 2010. If the terms of the Programme are modified in a manner which would make this Base Prospectus, as supplemented, inaccurate or misleading, a new Base Prospectus will be prepared in replacement for this Base Prospectus.

General Description of the Programme

The following general description does not purport to be complete and is taken from, and is, together with the information on pages 32 to 106 qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms and must be read together with the documentation referred to under the heading “Documents Incorporated by Reference” which is available for inspection.

Words and expressions defined under “Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes” or “Terms and Conditions of the Capital Notes” below or elsewhere in this Base Prospectus have the same meanings in this general description. References herein to the “relevant Conditions” means the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes or, as the case may be, the Terms and Conditions of the Capital Notes.

Barclays Bank PLC
BNP PARIBAS
Citigroup Global Markets Limited
Commerzbank Aktiengesellschaft
Crédit Agricole CIB
Credit Suisse Securities (Europe) Limited
Deutsche Bank AG, London Branch
Goldman Sachs International
HSBC Bank plc
J.P. Morgan Securities Ltd.
Merrill Lynch International
Morgan Stanley & Co. International plc
The Royal Bank of Scotland plc
UBS Limited
Zurich Bank

Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting.

Agent:	Citibank, N.A.
Luxembourg Listing Agent:	Dexia Banque Internationale à Luxembourg société anonyme
Size:	Up to USD15,000,000,000 (or its equivalent in other currencies) outstanding at any time. The Issuers may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Distribution:	Notes may be distributed by way of private placement or public offering and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the relevant Issuer, the relevant Dealer and the Trustee, including, without limitation, Australian Dollars, Canadian Dollars, Czech Koruna, Danish Kroner, Euro, Hong Kong Dollars, Japanese Yen, New Zealand Dollars, Norwegian Krone, Sterling, South African Rand, Swedish Krona, Swiss Francs and United States Dollars (as indicated in the applicable Final Terms, the “ Specified Currency ”).
Maturities:	Such maturities as may be agreed between the relevant Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency. The Issuers may issue Undated Subordinated Notes (subject as aforesaid) without a specified maturity. ZIC may issue Capital Notes without a specified maturity.

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the relevant Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the relevant Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (“FSMA”) by the relevant Issuer.

Issue Price:..... Notes may be issued on a fully paid basis and at an issue price which is at par or at a discount to, or premium over, par.

Form of Notes:..... Notes will be issued in bearer form or registered form as described in “Form of the Notes and the Capital Notes” below. Each Bearer Global Note (other than a Listed Swiss Franc Note) which is not intended to be issued in NGN form and each Registered Global Note which is not intended to be held under the NSS, each as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with the Common Depositary for Euroclear or Clearstream, Luxembourg and each Bearer Global Note (other than a Listed Swiss Franc Note) which is intended to be issued in NGN form and each Registered Global Note which is intended to be held under the NSS, each as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with the Common Safekeeper for Euroclear and Clearstream, Luxembourg. Subordinated Notes and Capital Notes will not be issued in NGN form. Listed Swiss Franc Notes will be represented by a Permanent Global SIS Note exchangeable for definitive Notes in the circumstances set out therein and holders of such Notes will not have the right to effect or demand the conversion of the Permanent Global SIS Notes representing such Listed Swiss Franc Notes into, or delivery of, Notes in definitive or uncertificated form. Each Listed Swiss Franc Note which is not intended to be issued in new global note form (a “**Classic Global Note**” or “**CGN**”), as specified in the relevant Final Terms, will be delivered through SIX SIS AG (“**SIS**”) or such other intermediary in Switzerland recognised for such purposes by the SIX Swiss Exchange Ltd. (“**SIX Swiss Exchange**”) on or prior to the original issue date of such Tranche, and each Listed Swiss Franc Note which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for SIS or such other intermediary. ZF (USA) may only issue Notes in bearer form if such Notes are offered and sold in accordance with Regulation S under the US Securities Act and in compliance with the TEFRA requirements under the US Internal Revenue Code and the Treasury Regulations thereunder.

Fixed Rate Notes: Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer (as indicated in the applicable Final Terms) and on redemption.

Floating Rate Notes: Floating Rate Notes will bear interest at a rate determined:

- (i) on the same basis as the floating rates under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association Inc.); or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer, as indicated in the applicable Final Terms.

The Margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes and specified in the applicable Final Terms.

Indexed Notes: Payments of principal in respect of Indexed Redemption Amount or of interest in respect of Indexed Interest Notes will be calculated by reference to such index and/or formula as the relevant Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).

Other provisions in relation to Floating

Rate Notes and Indexed Interest Notes: Floating Rate Notes and Indexed Interest Notes may also have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Final Terms).

Interest on Floating Rate Notes and Indexed Interest Notes in respect of each Interest Period, as selected prior to issue by the relevant Issuer and the relevant Dealer, will be payable on the Interest Payment Dates specified in, or determined pursuant to, the applicable Final Terms and will be calculated on the relevant Day Count Fraction unless otherwise indicated in the applicable Final Terms.

Dual Currency Notes: Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in the currencies, and based on the rates of exchange, as the relevant Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).

Zero Coupon Notes: Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Special provisions in relation to interest

payable under Subordinated Notes: Interest shall be payable on Subordinated Notes on such date or dates as may be agreed with the relevant Dealer (as indicated in the applicable Final Terms), subject to the provisions relating to the optional or mandatory deferral of interest payments set out under Condition 4 of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes.

Special provisions in relation to interest

payable under Capital Notes: Interest shall be payable on the Capital Notes on such date or dates as may be agreed with the relevant Dealer (as indicated in the applicable Final Terms), subject to the provisions relating to the optional or mandatory deferral or, as applicable, cancellation of interest payments set out in Condition 3 of the Terms and Conditions of the Capital Notes.

ZIC shall (if the applicable Final Terms specifies the Capital Note as being Cumulative with respect to such payment) defer or (if the applicable Final Terms specifies the Capital Note as being Non-Cumulative with respect to such payment) cancel any Interest Payment (or relevant part thereof as described herein) on the Capital Notes as follows:

- (i) if a Solvency Event is specified in the applicable Final Terms as applicable and has occurred and is continuing; or
- (ii) if a Trigger Event is specified in the applicable Final Terms as applicable and has occurred and is continuing.

In addition, ZIC may elect (if the applicable Final Terms provides for such election and specifies the Capital Note as being Cumulative with respect to such payment) to defer or (if the applicable Final Terms provides for such election and specifies the Capital Note as being Non-Cumulative with respect to such payment) to cancel such Interest Payment on the Capital Notes by giving notice of such election to the Trustee, the Agent and the Noteholders in accordance with the Terms and Conditions of the Capital Notes.

If an Interest Payment has not been paid in full by reason of any of the above then, in the case of Capital Notes specified as Cumulative with respect to such interest payment, for so long as such payment remains unpaid and, in the case of Capital

Notes specified as Non-Cumulative with respect to such interest payment, until the next payment of an Interest Payment in full, (if the applicable Final Terms so provide), ZIC, Zurich Financial Services Ltd (“ZFS”) and their subsidiaries will be subject to the restrictions on making certain payments described in Condition 3(d) of the Terms and Conditions of the Capital Notes.

Settlement of Deferred Interest — Capital Notes:

The Issuer may, if the applicable Final Terms specify that Cash Settlement is applicable, elect to pay in cash in whole or in part any Deferred Interest pursuant to Condition 3(e). The Issuer and ZFS may elect, and shall in specified circumstances be required, to settle Deferred Interest utilising the APM in accordance with Condition 3(e) of the Terms and Conditions of the Capital Notes.

Redemption of the Senior Notes and Subordinated Notes:

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior (in the case of Senior Notes and Dated Subordinated Notes) to their stated maturity (other than in specified instalments, if applicable, for taxation reasons or following an Event of Default) or that such Notes and Undated Subordinated Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving the notice required by the applicable Final Terms to the Noteholders or the relevant Issuer as the case may be, on a date or dates specified, at a price or prices and on such terms as are indicated in the applicable Final Terms and, where applicable pursuant to Condition 6 in the case of Subordinated Notes, having obtained the prior written approval of FINMA or any successor Authority for such payment. Furthermore, Subordinated Notes may be redeemed (i) for taxation reasons or (ii) if so specified in the applicable Final Terms, if a Capital Event or a Regulatory Event, has occurred. Upon the occurrence of any of the events described in (i) or, if so specified in the applicable Final Terms, (ii) above, the relevant Issuer may at any time either substitute all (but not some only) of the Subordinated Notes for, or vary the terms of the Subordinated Notes so that remain or, as appropriate, become, Qualifying Securities.

The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of the amounts and on the dates indicated in the applicable Final Terms.

Redemption of the Capital Notes:.....

The Capital Notes are either Dated Capital Notes or Undated Capital Notes. Undated Capital Notes are perpetual securities in respect of which there is no fixed maturity date and they are redeemable or repayable only in accordance with the provisions of Conditions 6 and 9 of the Terms and Conditions of the Capital Notes. In all cases, ZIC may only redeem, substitute or vary the Capital Notes if the FINMA has given and has not subsequently withdrawn its consent to the redemption, substitution or variation as appropriate, to the extent that such consent is required. The Dated Capital Notes may be redeemed upon maturity provided that, if so specified in the applicable Final Terms, if a Solvency Event has occurred and is continuing on the Maturity Date or would occur as a result of the relevant redemption, the Dated Capital Notes shall not be redeemed, unless the prior written approval of FINMA or any Successor Authority for such payment has been given. Furthermore, the Capital Notes may be redeemed (i) for taxation reasons or (ii), if so specified in the applicable Final Terms, on the occurrence of any of an Accounting Event, a Capital Event or a Regulatory Event pursuant to Condition 6.

Upon the occurrence of any of the events described in (i) or, if so specified in the applicable Final Terms, (ii) above, ZIC may at any time either substitute all (but not some only) of the Capital Notes for, or vary the terms of the Capital Notes so that they remain or, as appropriate, become, Qualifying Securities.

The Capital Notes may also be redeemed by the Issuer on any Optional Redemption Date in whole but not, unless so specified in the applicable Final Terms, in part, at the Optional Redemption Amounts specified in the applicable Final Terms, in accordance with Condition 6(d) of the Terms and Conditions of the Capital Notes.

Maintenance of Capital — Capital Notes:

The applicable Final Terms will specify whether ZIC or, as the case may be, ZFS intends to enter into a replacement capital covenant for the benefit of one or more designated series of ZIC’s debt securities. It is anticipated that the terms of any such replacement capital covenant will provide that ZIC will not redeem or repurchase any of the relevant Capital Notes and will not permit any subsidiary to purchase any of

the relevant Capital Notes, unless and to the extent the aggregate redemption, repurchase or purchase price is equal to or less than the net proceeds (or in certain circumstances a specified percentage of such net proceeds) received by ZIC, ZFS or their respective subsidiaries during the six months prior to such redemption, repurchase or purchase date, from new issuances of qualifying securities and that the covenant will terminate on the redemption of the Capital Notes if not terminated earlier in accordance with its terms. Any such replacement capital covenant will continue to be effective following any substitution or variation of the Capital Notes in accordance with their terms.

Denomination of Notes: **Notes issued under the Programme which may be listed on the Official List and admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system situated or operating in a Member State may not (a) have a minimum denomination of less than EUR 50,000 (or its equivalent in another currency), or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by ZF (Luxembourg), ZF (USA), ZF (UK), Zurich Bank, ZIC or by any entity to whose group ZF (Luxembourg), ZF (USA), ZF (UK), Zurich Bank or ZIC belong.**

Subject thereto, Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer as indicated in the applicable Final Terms save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

If so specified in the Final Terms, so long as the Notes are represented by a Temporary Global Note or Permanent Global Note, the Notes may be tradeable only in minimum nominal amounts of EUR 50,000 (or equivalent in another currency) and integral multiples of EUR 1,000 (or equivalent in another currency) in excess thereof.

Notes issued under the Programme may have a minimum denomination of less than EUR 50,000 if it is the intention that the Notes will not be listed on the Official List and admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system situated or operating in a Member State.

Taxation: See Condition 7 of the relevant Conditions and “Relevant Jurisdiction” definition in Condition 6(c) of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes and Condition 6(b) of the Terms and Conditions of the Capital Notes.

All payments on Notes issued by each of ZF (Luxembourg), ZF (USA), ZF (UK) and Zurich Bank will be made without deduction for or on account of withholding tax imposed by Luxembourg and Switzerland (in the case of Notes issued by ZF (Luxembourg)), the United States and Switzerland (in the case of Notes issued by ZF (USA)), the United Kingdom and Switzerland (in the case of Notes issued by ZF (UK)) and Ireland and Switzerland (in the case of Notes issued by Zurich Bank) unless such withholding is required by law. If such withholding is required, the relevant Issuer will generally be required to pay such additional amounts as will result in the receipt by the Noteholders of such amounts as they would have received had no such withholding been required, subject to a number of exceptions as set out in Condition 7 of the relevant Conditions.

All payments on Notes issued by ZIC will be made subject to withholding tax imposed by Switzerland to the extent required by law. No additional amounts will be paid by ZIC in respect of any such withholding as set out in Condition 7 of the relevant Conditions, save in the case of Capital Notes on which additional amounts will, subject to certain exceptions, be payable as discussed in Condition 7 of the Terms and Conditions of the Capital Notes.

Negative Pledge: The terms of the Senior Notes issued by ZF (Luxembourg), ZF (USA) and ZF (UK) will contain a negative pledge provision as further described in Condition 3(c) of the

Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes.

Cross Default:..... In relation to any Senior Notes, the terms of such Senior Notes will contain a cross default provision as further described in Condition 9(a)(iii) of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes.

Status of the Notes: Notes issued under the Programme may either be senior notes (“**Senior Notes**”), dated subordinated notes (“**Dated Subordinated Notes**”) or undated subordinated notes (“**Undated Subordinated Notes**”, together with Dated Subordinated Notes, “**Subordinated Notes**”) or, in the case of Notes issued by ZIC only, Capital Notes (the “**Capital Notes**”). The status of any such Subordinated Notes or Capital Notes will be described in Condition 2 of the relevant Conditions and the applicable Final Terms.

Senior Notes: The Senior Notes will constitute direct, unconditional, unsubordinated and, subject to the provision of Condition 3(c) of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes, unsecured obligations of the relevant Issuer and (subject as aforesaid) will rank *pari passu*, without any preference among themselves save for statutory preferred exceptions, with all other outstanding unsecured and unsubordinated obligations of the relevant Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors’ rights.

Subordinated Notes: The Subordinated Notes will rank as set out in the applicable provisions of Condition 2 of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes, as specified in the applicable Final Terms.

Capital Notes The Type A Capital Notes and Type B Capital Notes will rank as set out in the applicable provisions of Condition 2(a) and 2(b), respectively, of the Terms and Conditions of the Capital Notes, as specified in the applicable Final Terms.

The Type A Capital Notes will constitute direct, subordinated and unsecured obligations of ZIC and will rank *pari passu*, without any preference among themselves. The claims of the holders of Type A Capital Notes will rank on a voluntary or involuntary insolvency, winding-up, liquidation, dissolution or other similar proceedings of or against ZIC after the claims of any Senior Creditors (as defined in Condition 2(a)) of ZIC, *pari passu* with Subordinated Notes of the Issuer and the claims of the holders of any subordinated obligations of ZIC which rank or are expressed to rank *pari passu* with the claims of the holders of the Type A Capital Notes and prior to the claims of the holders of any Type B Capital Notes and of all classes of issued shares in the share capital of ZIC.

The Type B Capital Notes will constitute direct, subordinated and unsecured obligations of ZIC and will rank *pari passu*, without any preference among themselves. The claims of the holders of Type B Capital Notes will rank on a voluntary or involuntary insolvency, winding-up, liquidation, dissolution or other similar proceedings of or against ZIC after the claims of any Senior Creditors (as defined in Condition 2(b)) of ZIC (including claims of holders of ZIC Subordinated Notes and Type A Capital Notes), *pari passu* with the claims of the holders of any subordinated obligations of ZIC which rank or are expressed to rank *pari passu* with the claims of the holders of the Type B Capital Notes and prior to the claims of the holders of all classes of issued shares in the share capital of ZIC.

Save as otherwise specified in the applicable Final Terms, in the event of a voluntary or involuntary insolvency, winding-up, liquidation, dissolution or other similar proceedings of or against the Issuer, there shall be payable on each Capital Note, subject to the subordination provisions set out above, an amount equal to the principal amount of each Capital Note with, unless otherwise specified in the applicable Final Terms, unpaid and outstanding Deferred Interest and interest which has accrued up

to, but excluding, the date of repayment.

Holders of Capital Notes will have limited remedies, as described under Condition 9 of the Terms and Conditions of the Capital Notes.

Guarantees by ZIC: Each Tranche of Senior Notes issued by ZF (Luxembourg), ZF (USA), ZF (UK) or Zurich Bank will be unconditionally and irrevocably guaranteed by ZIC (each such guarantee, a “**Senior ZIC Guarantee**”). Each Senior ZIC Guarantee will be governed by Swiss law, will be issued by ZIC on the issue date of the relevant Tranche of Notes and will be limited to its stated maximum amount. The obligations of ZIC under each Senior ZIC Guarantee will be direct, unconditional, unsubordinated and unsecured obligations of ZIC and (subject as aforesaid) will rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of ZIC, present and future, save for statutorily preferred exceptions, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors’ rights. Payment under the relevant Senior ZIC Guarantee shall be made by ZIC within 7 days of receipt by it of notice from the Trustee that such payment has become due and remains unpaid.

Notes issued by Zurich Bank under this Programme will not receive the benefit of the guaranty and surety bond offered by certain of Zurich Bank’s parent companies to counterparties under certain other financial products and obligations of Zurich Bank, and therefore such Notes will only be covered by the Senior ZIC Guarantee or the Subordinated ZIC Guarantee (as applicable).

Each Tranche of Subordinated Notes issued by ZF (Luxembourg), ZF (USA), ZF (UK) or Zurich Bank will be guaranteed on a subordinated basis by ZIC by way of an unsecured and subordinated guarantee (each such guarantee, a “**Subordinated ZIC Guarantee**”). The obligations of ZIC under each Subordinated ZIC Guarantee will constitute direct, subordinated and unsecured obligations of ZIC ranking (i) after the claims of Senior Creditors, (ii) *pari passu* with Subordinated Notes and Type A Capital Notes of ZIC and any other subordinated obligations of ZIC which whether now or in the future rank or are expressed to rank *pari passu* with the claims of the holders of such Subordinated Notes or the beneficiaries of the Subordinated ZIC Guarantee and (iii) prior to the claims of holders of any Type B Capital Notes and of all claims of issued shares in the share capital of the Guarantor, it being understood that ZIC’s obligations in respect of certain guarantees (as more fully described under the section “Form of Subordinated Guarantee”) shall rank senior to the Subordinated ZIC Guarantee.

Prescription: The Notes, Receipts and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8 of the relevant Conditions) therefore.

Listing and Admission to Trading: Applications have been made for the Notes to be admitted to trading on the regulated market of the Luxembourg Stock Exchange (which is a regulated market pursuant to Directive 2004/39/EC) and listed on the Official List of the Luxembourg Stock Exchange for a period of twelve months from the date hereof. The Notes may also be admitted to listing, trading and/or quotation by any other listing authorities, stock exchanges and/or quotation systems (including the SIX Swiss Exchange) as may be agreed between the relevant Issuer and the relevant Dealer in relation to each Series.

The applicable Final Terms will state whether or not and, if so, on which stock exchange(s) the Notes are to be listed.

Governing Law: The Notes (other than the provisions of Condition 2 of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes in relation to Subordinated Notes which will be governed by, and construed in accordance with, the law of the jurisdiction of incorporation of the relevant Issuer of the Subordinated Notes and Condition 2 of the Terms and Conditions of the Capital

Notes which will be governed by, and construed in accordance with, the laws of Switzerland) will be governed by, and construed in accordance with, English law. Holders of Listed Swiss Franc Notes should note that, among other things, under the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes, collective representation of investors is possible, albeit without any guarantee that investors' anonymity can be assured.

Each Senior ZIC Guarantee and each Subordinated ZIC Guarantee will be governed by Swiss law.

Selling Restrictions: There are selling restrictions in relation to the United States, the European Economic Area, Ireland, the United Kingdom, Luxembourg and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See “**Subscription and Sale**” below.

Risk Factors

Prospective investors should carefully consider all of the information set forth in this Base Prospectus, the applicable Final Terms and any documents incorporated by reference before deciding to invest in any Notes or Capital Notes. Prospective investors should have particular regard to, among other matters, the considerations set out in this Risk Factors section of the Base Prospectus. The following is not intended as, and should not be construed as, an exhaustive list of relevant risk factors. There may be other risks that a prospective investor should consider that are relevant to its own particular circumstances or generally.

Each of the Issuers and ZIC believe that the following factors may affect their ability to fulfil its obligations under Notes or Capital Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and none of the Issuers nor ZIC are in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with Notes or Capital Notes issued under the Programme are also described below. None of the Issuers or ZIC represent that the statements below regarding the risks of holding any Notes or Capital Notes are exhaustive.

Factors that may affect the Issuers' ability to comply with their obligations under or in connection with Notes or Capital Notes issued under the Programme or of ZIC to comply with its obligations under its Guarantee

Reliance of investors on the creditworthiness of the relevant Issuer and ZIC (as applicable)

The Notes, the Capital Notes and the Guarantee (as applicable) will constitute unsecured, senior or subordinated obligations of the relevant Issuer and ZIC (as applicable), respectively, and will rank equally among themselves and equally with all other unsecured, senior or subordinated obligations of the relevant Issuer and ZIC (as applicable), respectively. The Capital Notes will constitute unsecured, subordinated obligations of ZIC and rank equally with any subordinated obligations of ZIC which whether now or in the future rank or are expressed to rank *pari passu* with the claims of the holders of the Capital Notes. It should be noted that mandatory provisions of law may operate such that certain other obligations of the relevant Issuer or ZIC must be satisfied in preference to their obligations under the Notes, the Capital Notes and the Guarantee (as applicable). In particular, ZIC is subject to certain insurance and financial services laws, regulations and policies which include provisions whereby certain assets are tied to obligations towards the policyholders and cannot be used for settlement of obligations to other creditors. This could affect its position under the Notes, the Capital Notes or the Guarantee (as applicable) either in its capacity as Guarantor or as Issuer (as applicable).

Noteholders are dependent solely on the ability of the relevant Issuer and ZIC to comply with its obligations under the Notes, the Capital Notes and the Guarantee (as applicable), and do not have the benefit of collateral or other forms of credit support.

Any actual or perceived deterioration in the financial condition, results of operations or cashflow of the relevant Issuer or ZIC could have a negative effect on the ability of the relevant Issuer or ZIC, as the case may be, to comply with its obligations under the Notes, the Capital Notes and the Guarantee (as applicable). In addition, investment in the Notes or the Capital Notes involves the risk that subsequent changes in actual or perceived creditworthiness of the relevant Issuer and ZIC (as applicable) may adversely affect the market value of the Notes or the Capital Notes.

Ratings

The financial strength and issuer credit ratings assigned to ZIC and other ZFS Group entities may be changed, suspended or withdrawn at any time by rating agencies. A change to the financial strength or issuer credit ratings assigned to ZIC or other ZFS Group entities may have an adverse effect on their competitive and financial position. Rating agencies look at a range of rating factors. For example large losses due to natural catastrophes could weaken the financial position of ZIC or other ZFS Group entities and trigger a downgrade of their respective ratings. The ZFS Group has issued debt through various entities. Ultimately the credit ratings of these debt issues are linked to the financial strength ratings of ZIC. Changes in credit ratings may affect both the ability to obtain new financing and the cost of financing.

The businesses, earnings and financial condition of ZIC and its operating subsidiaries have been and will continue to be affected by the continued deterioration in the global economy, as well as ongoing instability in the global financial markets.

The performance of ZIC and its operating subsidiaries has been and will continue to be influenced by the economic conditions of the countries in which it operates. Recessionary conditions were present in many of these countries and such conditions could re-emerge or worsen over the near to medium term. In addition, although the global financial system is recovering from the difficulties which first manifested themselves in August 2007 and culminated with the bankruptcy filing by Lehman Brothers in September 2008, a new dislocation of the financial system or the economy cannot be ruled out. Such conditions could lead to unprecedented levels of illiquidity, resulting in the development of significant problems for a number of the world's largest countries, corporate and financial institutions many of which are customers and counterparties of ZIC and its operating subsidiaries in the ordinary course of business.

The performance of ZIC and its operating subsidiaries may be affected by economic conditions impacting sovereign states including euro-zone member states. For example, the financial problems currently experienced by certain euro-zone member states may lead to the issue of significant volumes of debt, which may in turn reduce demand for debt issued by financial institutions and corporate borrowers. This could adversely affect the Group's access to the debt capital markets and may increase its funding costs, having a negative impact on its earnings and financial condition.

The volatility and disruption of the capital and credit markets (including that arising by reason of the financial difficulties experienced by sovereign states described above) have affected and could continue to affect the availability and cost of credit for financial institutions, including ZIC and its operating subsidiaries, and could continue to impact the credit quality of customers and counterparties. Such conditions, alone or in combination with regulatory changes or actions of other market participants, may cause ZIC and its operating subsidiaries to experience reductions in business activity, increased funding costs and funding pressures, decreased asset values, write-downs and impairment charges and lower profitability or to incur losses.

In addition, ZIC and its operating subsidiaries will continue to be exposed to the risk of loss if major counterparty financial institutions fail or are otherwise unable to meet their obligations. Their performance may also be affected by future recovery rates on assets and the historical assumptions underlying asset recovery rates, which may no longer be accurate given the unprecedented market disruption and general economic instability. The precise nature of all the risks and uncertainties faced by ZIC and its operating subsidiaries as a result of current economic conditions cannot be predicted and many of these risks are outside their control.

The actual or perceived failure or worsening credit risk of ZIC's and its subsidiaries' counterparties has adversely affected and could continue to adversely affect ZIC and its subsidiaries.

ZIC's and its subsidiaries' ability to engage in routine financial transactions has been and will continue to be adversely affected by the actual or perceived failure or worsening credit of its counterparties, including other financial institutions and corporate borrowers. ZIC and its subsidiaries have exposure to many different industries and counterparties and routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, other insurance companies and other institutional clients. As a result, defaults by, or even the perceived creditworthiness of or concerns about financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by ZIC and its subsidiaries or by other institutions. Many of these transactions expose ZIC and its subsidiaries to credit risk in the event of default of ZIC's and its subsidiaries' counterparty or client. In addition, ZIC's and its subsidiaries' credit risk is exacerbated when the collateral it holds cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due to ZIC and its subsidiaries, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those experienced in 2007 and 2008. Any such losses could have a material adverse effect on ZIC's and its subsidiaries' results of operations and financial condition.

ZIC's and its subsidiaries' earnings and financial condition have been, and their future earnings and financial condition are likely to continue to be, affected by depressed asset valuations resulting from poor market conditions.

Financial markets are currently subject to significant stress conditions, where steep falls in perceived or actual asset values have been accompanied by a severe reduction in market liquidity, as exemplified by events affecting asset backed collateralised debt obligations ("CDOs"), the US sub-prime residential mortgage market and the leveraged loan market. In dislocated markets, hedging and other risk management strategies have proven not to be as effective as they are in normal market conditions due in part to the decreasing credit quality of hedge counterparties, including monoline and other insurance companies and credit derivative product companies. Moreover, market volatility and illiquidity makes it difficult to value certain of ZIC's and its subsidiaries' exposures. Valuations in future periods, reflecting, among other things, then-prevailing market conditions and changes in the credit ratings of certain of ZIC's and its subsidiaries' assets, may result in significant changes in the fair values of ZIC's and its subsidiaries' exposures, even in respect of exposures for which the Group has previously recorded write-downs. In addition, the value ultimately realised by ZIC and its subsidiaries may be materially different from the current or estimated fair value. Any of these factors could require ZIC and its

subsidiaries to recognise further significant write-downs or realise increased impairment charges, any of which may adversely affect their capital position, their financial condition and their results of operations.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, ultimately, the amount and profitability of ZIC's and its subsidiaries' business.

In an economic downturn characterised by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for ZIC's and its subsidiaries' financial and insurance products could be adversely affected. In addition, ZIC and its subsidiaries may experience an elevated incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Adverse changes in the economy could affect earnings negatively and could have a material adverse effect on its business, results of operations and financial condition. The current crisis has also raised the possibility of future legislative and regulatory actions in addition to the enactment of the Emergency Economic Stabilization Act of 2008 (the "EESA") that could further impact ZIC and its subsidiaries' business. ZIC and its subsidiaries cannot predict whether or when such actions may occur, or what impact, if any, such actions could have on ZIC and its subsidiaries' business, results of operations and financial condition.

Currently, the US federal government does not directly regulate the business of insurance. However, federal legislation and administrative policies in several areas can significantly and adversely affect insurance companies. These areas include financial services regulation, securities regulation, pension regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct federal regulation of insurance have been proposed. In view of recent events involving certain financial institutions and the financial markets, it is possible that the US federal government will heighten its oversight of insurers, including possibly through a federal system of insurance regulation and/or that the oversight responsibilities and mandates of existing or newly created regulatory bodies could change. ZIC and its subsidiaries cannot predict whether these or other proposals will be adopted, or what impact, if any, such proposals or, if enacted, such laws, could have on our business, financial condition or results of operations.

The value or effectiveness of any credit protection that ZIC and its subsidiaries have purchased from insurers and other market counterparties (including credit derivative product companies) depends on the value of the underlying assets and the financial condition of the insurers and such counterparties.

ZIC and its subsidiaries have credit exposure arising from over-the-counter derivative contracts, mainly credit default swaps ("CDSs"), which are carried at fair value. The fair value of these CDSs, as well as ZIC's and its subsidiaries' exposure to the risk of default by the underlying counterparties, depends on the valuation and the perceived credit risk of the instrument against which protection has been bought.

Risk of insufficiency of loss reserves

ZIC and its operating subsidiaries maintain loss reserves for their insurance and run-off reinsurance businesses to cover estimated liability for losses and loss adjustment expenses for reported and unreported losses incurred as of the end of each accounting period. Such loss reserves may prove to be inadequate to cover actual losses and benefits experience. Additional losses, including losses arising from changes in the interpretation of legal liability, or the assessment of damages caused by judicial decisions or changes in law, the type of magnitude of which cannot be foreseen, may emerge in the future.

Loss reserves are established such that the provision for losses and benefits represents an amount that is believed to be greater than the mathematically expected amount that will be required to ultimately settle all claims incurred as of the fiscal year-end and interim statements. As such the provision makes allowance for identified sensitivities underlying the reserve estimates. These estimates are based on actuarial and statistical projections, at a given time, of facts and circumstances known at that time and estimates of trends in loss severity and other variable factors, including new concepts of liability or other changes in legal precedents and general economic conditions. Changes in these trends or other variable factors could result in claims in excess of loss reserves.

For some types of losses, most significantly long tail exposures under workers' compensation and general liability contracts, as well as losses related to asbestos and environmental pollution, it has been necessary, and may over time be necessary, to increase estimated ultimate loss and, therefore, the related loss reserves. Consequently, actual losses, benefits and related expenses paid may differ from estimates reflected in the loss reserves in the financial statements of ZIC or its operating subsidiaries.

Any insufficiencies in or need to increase loss reserves maintained by ZIC or its operating subsidiaries for future claims on insurance obligations underwritten by ZIC or its operating subsidiaries could have a material adverse effect on the financial condition, results of operations and cash flows of ZIC or its operating subsidiaries (as applicable).

Life insurance:**Biometric Risks**

Assumptions about mortality and morbidity used in pricing products are based on information provided from company and industry statistics and market information. These assumptions relate to our best estimate of the experience in each year. However a global pandemic, such as avian flu or swine flu, may produce an increase in mortality or morbidity in excess of our assumptions. This will lead to the number of claims being paid being greater than planned. These types of events are considered when assessing and reviewing a variety of financial covers, such as reinsurance.

Life expectancies continue to increase in the world's developed areas. If mortality estimates, including rates of future mortality improvement, prove to understate such rates of improvement, liabilities to policyholders in connection with pensions and annuity products will increase at a rate faster than expected. This may lead to significant unexpected losses.

Surrenders

Surrenders of insurance products at levels that differ from our best estimate expectations may impact the degree to which we may recover acquisition expenses incurred. Increased surrenders, depending on the nature of the product will typically result in the loss of future profits and for certain long term contracts may require assets to be sold to meet policyholder obligations when market prices for such assets are unfavorable resulting in losses.

Options and guarantees

Some life products contain options and guarantees for policyholders, such as guaranteed interest rates and surrender guarantees. These vary by product and country in which they have been written. Adverse financial market movements may result in increases in the value of these guarantees. The long term characteristic of the liabilities, especially for annuity and pension products, represent a potential risk for our life business. Asset liability management follows this risk closely, and financial hedges are introduced when deemed necessary. Similarly, a significant increase in yield curves might encourage financially aware policyholders to lapse their contracts on guaranteed terms, resulting in significant losses and decreased revenues.

Guaranteed annuities

Certain of ZIC's operating subsidiaries sell variable insurance products for which policyholders bear in full the credit and market risks associated with the underlying invested funds selected by them. However, certain of these variable products contain guarantees for which liabilities have been recorded that reflect additional benefits and minimum guarantees. These arise primarily in the subsidiary Kemper Investors Life Insurance Company from the Destinations variable annuity business. Our exposure to this risk has been largely mitigated by the implementation of a dynamic hedging strategy in Q1 2010.

Inability of reinsurers to meet their obligations and unavailability of reinsurance

ZIC and its operating subsidiaries transfer exposure to certain risks to others through reinsurance arrangements. The availability, amount and cost of reinsurance depend on general market conditions and may vary significantly. Although periodic reviews of the financial statements and reputations of the relevant reinsurers are conducted, such reinsurers may become financially unable or unwilling to honor their commitments by the time they are called upon to pay amounts due, which may not occur for many years. In addition, reinsurance may prove inadequate to protect against losses or may become unavailable in the future at commercially reasonable rates.

In December 2001, the ZFS Group divested its third party reinsurance business operated under the "Zurich Re" brand name by offering shares of the newly established Converium Holding AG to the public (the "**IPO**"). As part of the formation of Converium Holding AG and the IPO, members of the Group entered into various contracts with Converium Holding AG and its subsidiaries ("Converium"), including Quota Share Retrocession Agreements under which the Group retroceded certain third party assumed reinsurance business to Converium. These Quota Share Retrocession Agreements, together with subsequent amendments, provide for the reinsurance premium to Converium to be retained by the Group on a funds withheld basis. Since the IPO, the Group has continued to buy reinsurance coverage from Converium. In 2007, Scor SA, a reinsurer based in France, launched an unsolicited tender offer for the shares of Converium and on 8 August 2007, Scor announced it successfully settled the offer for Converium. On 30 August 2007, Converium held an extraordinary general meeting and formally became a part of Scor SA.

Competition risks

ZIC and its operating subsidiaries participate in a highly competitive market. Developments in this market and increased competition may adversely affect the financial position of ZIC and its operating subsidiaries. Continued consolidation of the insurance industry could lead to market-wide price reductions resulting in pressure on margins. Such competitive pressure may lead to adjustments to policy terms, withdrawal from or reduction of capacity in certain business lines or reduction of prices resulting in decreased margins.

Foreign currency exchange risks

Due to the international nature of their businesses, ZIC and its subsidiaries are exposed to various currency exchange risks which can affect liquidity, profit and loss, shareholders' equity, capital position and the overall economic enterprise value. ZIC's consolidated financial statements are reported in US Dollars, but its assets, liabilities, income and expenses are denominated in many currencies with significant amounts in Euro, Swiss Franc, British Pound, and US Dollars. Therefore, fluctuations in exchange rates between currencies, could impact the consolidated financial condition, results of operations and cash flow from year to year of ZIC.

Regulatory investigation, litigation and settlement risks

In 2006, certain ZIC subsidiaries settled with various US state attorneys general and state insurance regulators in connection with investigations in the US concerning certain business practices relating to insurance broker contingent commissions and certain "non-traditional" products, including products often referred to as "finite risk" insurance and reinsurance. In July 2006, these same ZIC subsidiaries and ZFS 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.

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

In addition, ZIC and its subsidiaries are, and may in the future be, involved in civil litigation, the outcome of which cannot be predicted.

The initiation of litigation proceedings and their outcome may adversely affect the financial position of ZIC and its subsidiaries.

For further details see "Zurich Insurance Company Ltd — Legal Proceedings and Regulatory Investigations" below.

Regulatory or legal changes

Insurance laws, regulations and policies currently governing ZIC and its operating subsidiaries may change at any time in ways which may adversely affect their business. Furthermore, the timing or form of any future regulatory initiatives cannot be predicted. ZIC and its subsidiaries are subject to applicable government regulation in each of the jurisdictions in which business is conducted. The insurance industry is also affected by political, judicial and other legal developments which have at times in the past resulted in new areas or expanded scope of liability.

In the European Union and Switzerland, reforms have been undertaken to modernise and strengthen the capital requirements of insurance companies and insurance groups. These reforms may lead to an increase in regulatory capital requirements. In Switzerland, risk based capital requirements were regulated in accordance with the Swiss Solvency Test (the "SST") in 2006. Swiss Insurers are required to build up sufficient risk bearing capital in order to cover their target capital under the SST as of 1 January 2011. In the European Union, risk based capital requirements are also being introduced pursuant to the Solvency II Directive ("Solvency II"), which was agreed to by the European Parliament in April 2009 and formally approved by a meeting of the European Union's Economic and Financial Affairs Council in November 2009. The European Commission has already initiated the process of developing detailed implementation measures that will complement the high level principles set out in Solvency II. These

implementation measures are subject to a consultation process which is not expected to be finalised until late 2011, consequently there remains significant uncertainty regarding the final outcome of this process. In the US, new reserving standards are being developed by the US National Association of Insurance Commissioners (“NAIC”) that would replace current statutory reserving practices for life insurance products and variable annuities with a principles-based approach to valuation of capital and reserves. In March 2010, the US enacted comprehensive health care reforms including various health insurance and related provisions that will be phased in over the next eight years. US administrative agencies have not yet developed detailed regulations for the implementation of these provisions, as a consequence of which the potential impact on the US health and related insurance markets remains unclear.

Recent financial and economic uncertainties have provoked a number of proposals for reform and additional regulation of financial institutions and markets from regulators, governments, groups of governments (such as the G20) and others. These proposals address the issue of systemic risk and the perceived gaps in the regulatory framework which might have contributed to the financial crisis, *inter alia* possible changes in accounting standards (including fair value accounting), management remuneration structures, internal control systems, capital and liquidity requirements and branch structures. They seek greater co-operation and information exchange between regulatory supervisors internationally and improved supervision of multinational groups. These proposals have primarily been focused on the banking sector and many are under development and have not yet become specific or precise. Accordingly, the financial consequences for the insurance sector and particularly for ZIC and its subsidiaries of the implementation of all or some of such proposals cannot yet be determined.

The above proposals, if adopted, could require additional regulatory capital of ZIC and its subsidiaries, require changes to the way in which ZIC and its subsidiaries carry on their business, lead to additional expense or otherwise adversely affect ZIC’s financial position and that of its operating subsidiaries.

Natural and man-made catastrophe risks

General insurance companies frequently experience losses from catastrophes. Catastrophes may have a material adverse effect on the financial condition, results of operations and cash flows of ZIC and its operating subsidiaries.

Natural catastrophes include, but are not limited to hurricanes, floods, windstorms, tidal waves, earthquakes, tornadoes, fires, severe hail and severe winter weather, and are inherently unpredictable in terms of both their occurrence and severity. Catastrophes can also be man-made, such as terrorist attacks, explosions, fires and oil spills. The incidence and severity of these catastrophes in any given period are inherently unpredictable.

Deferred tax assets and liabilities

Deferred tax assets and liabilities of ZIC and its subsidiaries are recorded in the tax paying entities throughout the world, which may include several legal entities within each tax jurisdiction. The recoverability of the deferred tax asset of each taxpayer is based on its ability to utilize the deferred tax asset over a reasonable period of time. ZIC or the relevant subsidiary may not be able to fully recover its deferred tax assets in each jurisdiction.

Tax authorities may dispute submitted tax returns of the ZFS Group, which could adversely affect it.

Tax authorities throughout the world who examine submitted tax returns may dispute the basis of computation and propose adjustments which may lead to additional tax charges, interest and/or penalties.

Tax liabilities of ZFS Group may be adversely affected by proposed and recently adopted US tax legislation.

In 2008, the Staff of the US Senate Committee on Finance released a discussion draft (“**Discussion Draft**”) which proposes to disallow deductions for certain reinsurance premiums paid by US property and casualty insurance companies to non-US affiliates of those companies. The Discussion Draft proposal is similar to a measure that was introduced in the US House of Representatives in 2008 and 2009 by Representative Neal. A similar proposal was also contained in President Obama’s Fiscal Year 2011 Revenue Proposals, with some modifications. If enacted in any of its present forms, the measure could adversely affect ZFS Group and certain of its affiliates by increasing materially their US tax liability. In addition, if the measure were enacted it may be necessary for ZFS Group and certain of its affiliates to take steps to alter the manner in which they conduct their business. Whether the measure will be enacted in any of its present forms or in another form cannot be predicted. Moreover, until the terms of any final measure are known, the impact on ZFS Group and certain of its affiliates of the measure and any business restructuring in response to such a measure cannot be evaluated.

Recently enacted tax legislation imposes a 30 per cent US withholding tax on certain payments to a “foreign financial institution” made after 31 December 2012 unless such institution enters into a disclosure agreement with the US Department of Treasury regarding its US account holders and certain other requirements are met. There is currently some uncertainty as to what extent a non-US insurance company will be considered to be a “foreign financial institution” under the recently enacted legislation. The legislation may result in significant US reporting requirements for the ZFS Group and additional US withholding taxes on payments to members of the ZFS Group. To the extent these new reporting rules apply, the ZFS Group intends to reasonably comply with such rules to reduce or eliminate any US withholding tax under such rules.

Tax assessment litigation

The ZFS Group is disputing various tax assessments by the tax authorities regarding previous years. In March 2009, the ZFS Group received from the US Internal Revenue Service (“IRS”) a 30 day letter and revenue agent report asserting proposed changes to the 2005-2006 tax returns for the consolidated group of which Zurich Finance (USA), Inc. is a member. Such proposed adjustments by the IRS include issues that may recur in future tax years. The 30 day letter and revenue agent report for the 2005-2006 tax years challenges, among other things, the deductibility of interest accruing on certain hybrid securities issued in 2005. The IRS may propose a similar adjustment for later tax years with respect to such securities and similar hybrid securities issued in 2007. The ZFS Group plans to dispute the proposed adjustments vigorously and is in discussions with the IRS regarding these matters. The ZFS Group submitted a protest to IRS Appeals with respect to the 30 day letter and the revenue agent report in May 2009. The outcome of those discussions and/or disputes is open and the result of those discussions and/or disputes could adversely affect Zurich Finance (USA), Inc.’s and certain of its affiliates’ financial condition and results of operations.

Adequacy of resources to meet pension obligations

There is a risk that provisions for future obligations to employees under pension plans and other defined post-employment benefits may not be adequate. In assessing the Group’s liability for defined benefit pension plans and other post-employment 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. 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.

Farmers Group, Inc.’s management fees for its services may drop significantly

Farmers Group Inc. provides non-claims related insurance management services for the Farmers Exchanges. Management fees earned by it are based upon the volume of gross premiums earned by the Farmers Exchanges, whose ability to continue writing insurance is dependent upon, *inter alia*, statutory surplus levels and price competition. Any deterioration in the volume of gross premiums earned by the Farmers Exchanges may therefore affect the level of management fees received by Farmers Group, Inc. for its management services.

Risks related to the structure of a particular issue of Notes and Capital Notes

A wide range of Notes and Capital Notes may be issued under the Programme. A number of these Notes and Capital Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes and Capital Notes may not be a suitable investment for all investors

Each potential investor in any Notes and Capital Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes and Capital Notes, the merits and risks of investing in the relevant Notes and Capital Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and Capital Notes and the impact such investment will have on its overall investment portfolio;

- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes and Capital Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and Capital Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Partly Paid Notes

The Issuers may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Notes or Capital Notes issued at a substantial discount

The market values of securities issued at a substantial discount to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities.

The Issuers' obligations under Subordinated Notes are subordinated

The obligations of the relevant Issuer under Subordinated Notes will rank junior in priority of payment to the claims of Senior Creditors (as defined in Condition 2 of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes). Furthermore, the relevant Issuer shall, if so specified in the Final Terms, have the option to defer payments of interest on Subordinated Notes when such interest has accrued in respect of an Interest Period which ends on an Optional Interest Payment Date (as such term is defined in Condition 4(f) of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes) and shall, if so specified in the Final Terms, also be required to defer payment of interest on Subordinated Notes if a "Solvency Event" (as such term is defined in Condition 4 of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes) has occurred and is continuing. Certain Arrears of Interest may only be payable on Subordinated Notes following the prior written approval of Swiss Financial Market Supervisory Authority (FINMA) ("FINMA") or any Successor Authority as more fully set out in Condition 4 (f) (iii) of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes.

Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the relevant Issuer become insolvent.

The relevant Issuer's obligations in respect of Dated Subordinated Notes and Dated Capital Notes to repay the Final Redemption Amount on the Maturity Date may be extended indefinitely

If the Maturity Date of a Dated Subordinated Note occurs when a "Solvency Event" (as defined in Condition 4 of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes) has occurred and is continuing, then such Maturity Date will, if so specified in the applicable Final Terms, be extended until such event no longer exists, unless prior approval by FINMA or any Successor Authority is given for repayment.

Notes or Capital Notes Redeemable at the relevant Issuer's Option

Notes or Capital Notes which are redeemable at the option of the relevant Issuer (because of the inclusion of a call option in the Final Terms, for tax related reasons or as a result of the occurrence of an Accounting Event (in relation to Capital Notes only), a Capital Event (in relation to Subordinated Notes and Capital Notes) or a Regulatory Event (in relation to Subordinated Notes and Capital Notes) provided in the Final Terms or for other specified reasons) may be redeemed at times when prevailing interest rates may be lower than the rate borne by such Notes or Capital Notes. As a result, the holders of such Notes or Capital Notes may not be able to reinvest the redemption proceeds in a comparable security at an interest rate as high as that of the relevant Notes or Capital Notes. In addition, the relevant Issuer's ability to redeem such Notes or Capital Notes at its option is likely to affect the market value of such Notes or Capital Notes. In particular, as the redemption date approaches, the market value of such Notes generally will not rise substantially above the redemption price because of the optional redemption feature. Subordinated Notes and Capital Notes contain

provisions which allow the Issuer to substitute or vary the terms of such security for Qualifying Securities upon the occurrence of a Capital Event, an Accounting Event (in relation to Capital Notes only), a Regulatory Event or for tax related reasons as applicable.

Fixed/Floating Rate Notes or Capital Notes

Notes or Capital Notes may bear interest at a rate that the relevant Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate as set out in the Final Terms. The relevant Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes or Capital Notes. If the relevant Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes or Capital Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes or Capital Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes or Capital Notes. If the relevant Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes or Capital Notes.

Index Linked Notes or Capital Notes

Notes or Capital Notes may be issued which have principal, premium and/or interest determined by reference to an index or formula, to changes to the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**) and these have significant risks that are not associated with a conventional fixed rate or floating rate debt security. Such risks include fluctuation of the particular indices or formulas and the possibility that an investor will receive a lower amount of principal, premium or interest and at different times than expected. Potential investors should be aware that:

- (i) the market price of such Notes or Capital Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes or Index Linked Capital Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk associated with an investment in any Index Linked Notes or Index Linked Capital Notes and the suitability of such Notes in light of its particular circumstances.

In recent years, values of indices and formulas have been volatile and investors should be aware that volatility may occur in the future.

Additional risks related specifically to Capital Notes

ZIC's obligations under the Capital Notes are deeply subordinated

The rights and claims of the holders of the Capital Notes will be subordinated to the claims of all Senior Creditors (as defined in Condition 2(a) or Condition 2(b), as applicable of the Terms and Conditions of the Capital Notes), in that the claims of the holders of Capital Notes rank on a voluntary or involuntary insolvency, winding-up, liquidation, dissolution or other similar proceedings of or against ZIC after the claims of any Senior Creditors of ZIC, *pari passu* with the claims of the holders of any subordinated obligations of ZIC which rank or are expressed to rank *pari passu* with the claims of the Noteholders and prior to the claims of the holders of all classes of issued shares in the share capital of ZIC.

Furthermore, the claims of holders of Type B Capital Notes and relative Receipts and Coupons rank, save as otherwise specified in the applicable Final Terms, on a voluntary or involuntary insolvency, winding-up, liquidation, dissolution or other similar proceedings of or against the Issuer, junior to the claims of holders of any ZIC Subordinated Guarantee and Type A Capital Notes.

In the event of a voluntary or involuntary insolvency, winding-up, liquidation, dissolution or other similar proceedings of or against ZIC, there shall be payable on each Capital Note, subject to the subordination provisions set out above, an amount equal to the principal amount of each Capital Note with, unless otherwise specified in the applicable Final Terms, unpaid Deferred Interest (as defined in the Terms and Conditions of the Capital Notes) and interest which has accrued up to, but excluding, the date of repayment. Although the Capital Notes may pay a higher rate of interest than comparable Notes which are unsubordinated or which are subordinated but not as deeply subordinated as the Capital Notes, there is a significant risk that an investor in Capital Notes will lose all or some of its investment should ZIC become insolvent.

Deferral or Cancellation of Interest

- (A) If a Solvency Event has occurred and is continuing as at the relevant Deferral Determination Date (as defined in the Terms and Conditions of the Capital Notes) and the Solvency Deferral Condition (as defined in the Terms and Conditions of the Capital Notes) is satisfied as at the relevant Interest Payment Date, ZIC shall (if the applicable Final Terms specifies a Solvency Event as being applicable and the Capital Note as being Cumulative in relation to a Solvency Event) defer or, (if the applicable Final Terms specifies a Solvency Event as being applicable and the Capital Note as being Non-Cumulative in relation to a Solvency Event) cancel, any Interest Payment which is otherwise scheduled to be paid on an Interest Payment Date and shall defer or, as applicable, cancel the relevant Solvency Shortfall (as defined in the Terms and Conditions of the Capital Notes) if, were ZIC to make payment of the relevant Interest Payment, a Solvency Event would, as at the date of such payment, occur, in any such case except that ZIC will not be required to defer or, as applicable, cancel such Interest Payment or Solvency Shortfall, as the case may be, if the FINMA or any Successor Authority applicable at the time has consented to such payment.
- (B) If a Trigger Event has occurred and is continuing as at the relevant Deferral Determination Date, then, in relation to any Interest Payment which is otherwise scheduled to be paid on an Interest Payment Date, ZIC shall (if the applicable Final Terms specifies the Trigger Event as being applicable and the Capital Note as being Cumulative in relation to a Trigger Event) defer or, (if the applicable Final Terms specifies the Trigger Event as being applicable and the Capital Note as being Non-Cumulative in relation to a Trigger Event) cancel, the amount by which such Interest Payment exceeds the New Capital Amount per Capital Note outstanding at such time.

If the applicable Final Terms so provide, ZIC may also elect to (if the applicable Final Terms specifies the Capital Note as being Cumulative with respect to such payment) defer or (if the applicable Final Terms specifies the Capital Note as being Non-Cumulative with respect to such payment) cancel, any Interest Payment which is otherwise scheduled to be paid on an Optional Interest Payment Date by giving notice of such election to the Trustee, the Agent and the holders of the Capital Notes in accordance with Condition 13 of the Terms and Conditions of the Capital Notes.

In the case where a payment is specified as aforesaid as being Cumulative and the applicable Final Terms specify that Cash Settlement is applicable, the Issuer may elect at any time to pay in cash in whole or in part any Deferred Interest. However, any outstanding Deferred Interest will become immediately due and payable in cash in full (or in the case where limb (iv) of the definition of APM Deferred Settlement Date (as defined in the Terms and Conditions of the Capital Notes) is specified as applying as part of the definition of Cash Deferred Settlement Date, on a proportionate basis) upon the Cash Deferred Settlement Date (as defined in the Terms and Conditions of the Capital Notes).

Notwithstanding the foregoing, Deferred Interest shall only be due and payable if at the relevant time the prior written approval of FINMA or any Successor Authority to such payment has been given (if such approval is required under Applicable Regulations at the relevant time).

In the case where a payment is specified as aforesaid as being Cumulative and the applicable Final Terms specify that APM Settlement is applicable, the Issuer and ZFS may elect at any time to use their commercially reasonable efforts to satisfy in whole or in part any Deferred Interest utilising the APM (as defined in Condition 3(e) of the Capital Notes) and the Issuer and ZFS shall use their commercially reasonable efforts to apply the APM to satisfy all (or, in the case where limb (iv) of the definition of APM Deferred Settlement Date applies, on a proportionate basis) of the outstanding Deferred Interest upon the APM Deferred Settlement Date.

Notwithstanding the foregoing, the Issuer and ZFS will only be obliged to use their commercially reasonable efforts to satisfy any Deferred Interest as aforesaid if at the relevant time the prior written approval of FINMA or any Successor Authority to such payment has been given.

Once ZIC and ZFS have become obliged to use their respective commercially reasonable efforts to operate the APM to settle any Deferred Interest, ZIC and ZFS must continue to use their respective commercially reasonable efforts to raise sufficient proceeds from the operation of the APM for certain specified time periods following the relevant Deferred Settlement Date to the extent permitted under prevailing applicable regulatory criteria governing the Capital Notes. If ZIC is unable to consummate (i) the issuance of Qualifying APM Securities or (ii) utilise PIK (if specified) in the applicable Final Terms, within such time period outlined above, ZIC's obligation with respect to such Deferred Interest will be cancelled. In any case, Deferred Interest that has not been settled within the period of time specified in the Final Terms of any deferral will be cancelled.

Use of the APM to satisfy Deferred Interest may be subject to restrictions

Upon the Issuer and ZFS becoming obliged to use their commercially reasonable efforts to settle Deferred Interest using the APM pursuant to Condition 3(e), the Issuer and ZFS will use their commercially reasonable efforts to satisfy such Deferred Interest by way of Ordinary Share Settlement, Eligible Security Settlement or Warrant Settlement. Only if the Issuer and ZFS are unable to satisfy Deferred Interest that is due and payable by way of Ordinary Share Settlement, Eligible Security Settlement or Warrant Settlement, will the Issuer and ZFS use their commercially reasonable efforts to utilise PIK in accordance with the provisions of Condition 3(e).

Subject as provided in Condition 3(e) of the Terms and Conditions of the Capital Notes, ZIC may only utilise the Ordinary Share Settlement and the Warrant Settlement (each as defined in the Terms and Conditions of the Capital Notes) to the extent that the number of Payment Shares (as defined in the Terms and Conditions of the Capital Notes) used for the purpose of the APM in any 12-month period together with the maximum number of ordinary shares which may be issued pursuant to the terms (as of their respective dates of issuance) of all Qualifying Mandatory Convertibles (as defined in the Terms and Conditions of the Capital Notes) and Qualifying Warrants (as defined in the Terms and Conditions of the Capital Notes) during the same 12-month period for this purpose does not exceed 2 per cent of ZFS' outstanding share capital.

Subject as provided in Condition 3(e) of the Terms and Conditions of the Capital Notes, ZIC may only utilise the Eligible Security Settlement and/or PIK (as defined in the Terms and Conditions of the Capital Notes) to the extent the aggregate principal amount of qualifying non-cumulative Eligible Securities (as defined in the Terms and Conditions of the Capital Notes) and any PIK Amount (as defined in the Terms and Conditions of the Capital Notes) (together with any previous PIK Amounts) would not exceed 25 per cent of the initial aggregate principal amount of the Capital Notes, provided that the aggregate principal amount of Eligible Securities (together with any such Eligible Securities previously issued) and/or the PIK Amount (together with any previous PIK Amounts) may not exceed 15 per cent of the initial aggregate principal amount of the Capital Notes, as more particularly described in Condition 3(e) of the Terms and Conditions of the Capital Notes.

Perpetual Securities

ZIC is under no obligation to redeem the Undated Capital Notes at any time and the holders of Undated Capital Notes have no right to call for their redemption. Redemption of Dated Capital Notes on their Maturity Date is subject to no Solvency Event occurring on the Maturity Date, as more fully explained in Condition 6(a). ZIC or, as the case may be, ZFS may from time to time in connection with the issue of a Series of Capital Notes, enter into a replacement capital covenant for the benefit of holders of certain of its outstanding debt. A replacement capital covenant would permit ZIC to redeem such Series of Capital Notes only to the extent it has raised sufficient net proceeds from the issuance of qualifying securities. See Condition 6(f) of the Terms and Conditions of the Capital Notes for a summary of the terms of such a replacement capital covenant.

Redemption, Exchange Risk and Substitution

The Capital Notes may, subject as provided in Condition 6 of the Capital Notes, be redeemed by ZIC at their Optional Redemption Amount together with any interest accrued to (but excluding) the relevant Optional Redemption Date and, if the Capital Notes are expressed to be Cumulative with respect to such payment (but not otherwise) any Deferred Interest which will be satisfied by operation of Condition 3(e) of the Terms and Conditions of the Capital Notes. In addition, the Capital Notes may be redeemed (i) for tax reasons or, if so specified in the applicable Final Terms, (ii) upon the occurrence of any of an Accounting Event, a Capital Event or a Regulatory Event prior to the first Optional Redemption Date in whole but not in part at any time. Upon the occurrence of the events in either of (i) or, if so specified in the applicable Final Terms, (ii) above, the Capital Notes may be substituted for, or their terms varied so that they remain, Qualifying Securities.

No limitation on issuing senior or *pari passu* securities

There is no restriction on the amount of securities which ZIC or any other member of the Zurich Financial Services Group may issue and which may rank senior to, or *pari passu* with, the respective Capital Notes. The issue of any such securities may reduce the amount recoverable by holders of Capital Notes on a winding-up of the Issuer and/or may increase the likelihood of a deferral of payments under the Capital Notes.

Risks related to the market generally**An active trading market may not develop for the Notes or Capital Notes**

The Notes or Capital Notes are a new issue of securities for which there is no trading market and one may never develop. If such a market were to develop, the Notes or Capital Notes could trade at prices which may be higher or lower than the initial offering price. Notes or Capital Notes issued with specific investment objectives or strategies will have a more limited trading market and may experience more price volatility. Prospective investors should be aware that, at the time they wish to sell their Notes or Capital Notes, there may be few or no investors willing to buy the Notes or Capital Notes.

Exchange rates and exchange controls

Notes or Capital Notes and or coupon payments can be denominated in, or the payment of which is to be or may be made in or related to the value of, a currency or composite currency and significant risks are entailed if such currency is other than the currency in which the prospective investor's financial activities are denominated. Such risks include the possibility of significant changes in the currency exchange rates and the risk of imposition or modification of foreign exchange controls by the relevant government. Depreciation of the currency in which a Note or Capital Note is denominated would result in a decrease in the effective yield of such Note or Capital Note and, in certain circumstances, could result in a loss to the investor.

Governments have imposed from time to time, and may in the future impose, exchange controls which could affect exchange rates as well as the availability of a specified foreign currency at the time of payment of principal of, and premium, if any, or interest, if any, on a Note or Capital Note.

Interest rate risks

Investment in Fixed Rate Notes or Fixed Rate Capital Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes or Capital Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes or Capital Notes. The ratings may not reflect the potential impact of all risks related to structure, market and other factors which may affect the value of the Notes or Capital Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Tax consequences of holding the Notes or Capital Notes

Potential investors should consider the tax consequences of investing in the Notes or Capital Notes and consult their tax advisers about their own tax situation.

Risks related to the Notes or Capital Notes generally

Set out below is a brief description of certain risks relating to the Notes or Capital Notes generally:

Modification

The conditions of the Notes and the Capital Notes contain provisions for calling meetings of holders of Notes and Capital Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of Notes and Capital Notes including holders of Notes and Capital Notes who did not attend and vote at the relevant meeting and holders of Notes and Capital Notes who voted in a manner contrary to the majority.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Also a number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

If a payment were to be made or collected through a Member State, or a non-EU country or territory, which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the relevant Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note or Capital Note as a result of the imposition of such withholding tax.

The European Commission, the Council of the European Union and the European Parliament are considering a number of proposals to amend EC Council Directive 2003/48/EC. If any of the proposed changes are made to the Directive, they may amend or broaden the scope of the requirement discussed above.

Applicable Law

The conditions of the Notes and the Capital Notes are governed by English law in effect as of the date of this Base Prospectus, save that the provisions relating to subordination in Notes which are Subordinated Notes will be governed by the law of the jurisdiction of incorporation of the Issuer of such Subordinated Notes and the provisions relating to subordination in the Capital Notes will be governed by the laws of Switzerland. The Guarantees by ZIC are governed by Swiss law and accordingly any dispute arising out of the Guarantees between the Guarantor and the Trustee, or the Guarantor and a Holder who is entitled to proceed against the Guarantor, shall fall exclusively within the jurisdiction of the Commercial Court of the Canton of Zurich.

No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice or Swiss law or administrative practice, respectively, after the date of this Base Prospectus.

Denomination (secondary trading)

Although Notes or Capital Notes which are admitted to trading on a regulated market in the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive are required to have a minimum denomination of EUR 50,000 (or where the specified currency is not euro, its equivalent in the specified currency), it is possible that the Notes or Capital Notes may be traded in the clearing systems in amounts in excess of EUR 50,000 (or its equivalent) that are not integral multiples of EUR 50,000 (or its equivalent). In such a case, should definitive Notes or Capital Notes be required to be printed, a holder who does not have an integral multiple of EUR 50,000 (or its equivalent) in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes or Capital Notes unless and until such time as his holding becomes an integral multiple of EUR 50,000 (or its equivalent).

Form of the Notes and the Capital Notes

The Notes of each Tranche will be either in bearer form or registered form.

With respect to a particular Series of Registered Notes, the Registered Notes of each Tranche of such Series offered and sold in reliance on Regulation S under the US Securities Act (“**Reg. S**”), which will be sold to non-US persons outside the United States, will initially be represented by a Reg. S Global Note which will be registered in the name of Citivic Nominees Limited as nominee for, and will be deposited with Citibank, N.A. as common depositary for, and in respect of interests held through, Euroclear and Clearstream, Luxembourg for the accounts of their respective participants. Prior to expiry of the distribution compliance period applicable to each Tranche of Notes, interests in a Reg. S Global Note may not be offered or sold to or for the account or benefit of, a US person save as otherwise provided in Condition 10 of the relevant Conditions and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Reg. S Global Note will bear a legend regarding such restrictions on transfer.

Registered Notes will not be exchangeable for Bearer Notes.

Interests in the Reg. S Global Note will be exchangeable for Individual Registered Notes in the following limited circumstances: (i) if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces its intention permanently to cease business or does in fact do so and no alternative clearance system acceptable to the Trustee is available, or (ii) the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of Noteholders under the Notes represented by such Reg. S Global Note, and the Trustee has been advised by counsel that in connection with such proceedings it is necessary or appropriate for the Trustee to obtain possession of Individual Registered Notes representing the Reg. S Global Note.

Individual Registered Notes may also be sold outside the United States in reliance on Regulation S under the US Securities Act.

Payments of the principal of, and interest (if any) on, the Reg. S Global Notes will be made to the nominee of Euroclear and/or Clearstream, Luxembourg as the registered holders of the Reg. S Global Notes. None of the relevant Issuer, the Trustee, the Agent, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Reg. S Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal on the Reg. S Notes (as defined in the Trust Deed) will be made to the persons shown on the Register at the close of business on the business day immediately prior to the relevant payment date. Payments of interest on the Reg. S Notes will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

Each Tranche of Bearer Notes (other than a Tranche of Listed Swiss Franc Notes) will be initially represented by either (i) a Temporary Global Note or (ii) a Permanent Global Note, in each case without receipts, interest coupons or talons, which, if it is not intended to be issued in new global note (“**NGN**”) form, and each Registered Global Note which is not intended to be held under the NSS, each as specified in the relevant Final Terms, will be delivered to a common depositary for Euroclear and Clearstream, Luxembourg and each Global Note which is intended to be issued in NGN form, and each Registered Global Note which is intended to be held under the NSS, each as specified in the relevant Final Terms, will be delivered on or around the issue date of the relevant Tranche of the Notes with a common safekeeper for Euroclear and Clearstream, Luxembourg.

On 13 June 2006 the European Central Bank (the “**ECB**”) announced that Notes in NGN form are in compliance with the “Standards for use of EU securities settlement systems in ESCB credit operations” of the central banking system for the euro (the “**Eurosystem**”), provided that certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used and certain other criteria are fulfilled. From 1 October 2010, Registered Global Notes which are cleared through an international central securities depositary and intended to constitute eligible collateral for Eurosystem monetary policy operations will need to be issued under a new safekeeping structure (“**NSS**”). Such Registered Global Notes will be registered in the name of a nominee of the international central securities depositary acting as common safekeeper and asset servicing functions in respect of such Registered Global Notes will be performed by an agent of the international central securities depositaries acting as common service provider.

Whilst any Note is represented by a Temporary Global Note and subject to TEFRA D selling restrictions, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interest in such Note are not US persons or persons who have purchased for resale to any US person, as required by US Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent. Listed Swiss Franc Notes will be represented by a Permanent Global SIS Note exchangeable for Definitive Bearer Notes in the circumstances set out therein and holders of such Notes will not have the right to effect or demand the conversion of the Permanent Global SIS Note representing such Swiss Franc Notes into, or delivery of, Notes in definitive or uncertificated form. Listed Swiss Franc Notes will be delivered through SIS or such other intermediary in Switzerland recognised for such purposes by the SIX Swiss Exchange on or prior to the original issue date of such Notes. Any reference in this section **“Form of the Notes and the Capital Notes”** to (i) Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearance system (including SIS or such other intermediary in Switzerland recognised for such purposes by the SIX Swiss Exchange on or prior to the original issue date of such Notes) approved by the relevant Issuer, ZIC (where ZIC is not the relevant Issuer), the Trustee and the Agent, and (ii) **“Notes”** shall be deemed to include the Permanent Global SIS Note issuable in respect of Listed Swiss Franc Notes. A Permanent Global SIS Note representing Swiss Franc Notes will be exchangeable for definitive Notes in whole but not in part only if the Swiss paying agent should, after consultation with the Issuer, deem the printing of definitive Notes to be necessary or useful, or if the presentation of definitive Notes is required by Swiss or other applicable laws and regulations in connection with the enforcement of rights of holders of Swiss Franc Notes, or if the Swiss paying agent at any time at its discretion determines to have definitive Notes issued; holders of Swiss Franc Notes will not have the right to effect or demand the conversion of the Permanent Global SIS Note representing such Swiss Franc Notes into, or delivery of, Notes in definitive or uncertificated form. If definitive Notes are delivered, the relevant Permanent Global SIS Note will be immediately cancelled by the Swiss paying agent and the definitive Notes shall be delivered to the relevant holders against cancellation of the relevant Swiss Franc Notes in such holders’ securities accounts.

On and after the date (the **“Exchange Date”**) which is 40 days after the date on which any Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for interests in a Permanent Global Note without receipts, interest coupons or talons or for Definitive Bearer Notes (notwithstanding the Final Terms may specify that no Definitive Bearer Notes will be issued over a certain denomination) with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of Definitive Bearer Notes, to such prior notice as is specified in the applicable Final Terms) in each case (if the Notes are subject to TEFRA D selling restrictions) against certification of beneficial ownership as described in the second sentence of the immediately preceding paragraph unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date unless upon due certification exchange of the Temporary Global Note is improperly withheld or refused.

Pursuant to the Agency Agreement (as defined under “Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes” and under “Terms and Conditions of the Capital Notes” below) the Agent shall arrange that, where a further Tranche of Notes is issued, the Notes of such Tranche shall be assigned (where applicable) a common code and ISIN by Euroclear and Clearstream, Luxembourg or CUSIP number which are different from the common code and ISIN or CUSIP number assigned to Notes of any other Tranche of the same Series until at least 40 days (as notified by the Agent to the relevant Dealer or, in the case of a syndicated issue, the lead manager) after the completion of the distribution of the Notes of such Tranche.

Payments of principal and interest (if any) on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Note (if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification. The applicable Final Terms will specify that either (i) a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive bearer Notes with, where applicable, receipts, interest coupons and talons attached upon not less than 60 days’ written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of such Permanent Global Note) to the Agent as described therein or (ii) a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive bearer Notes with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of certain specified events as described therein. The events described are that (i) an Event of Default (as defined in Condition 9 of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes) or a Dissolution Event (as defined in Condition 9 of the Terms and Conditions of the Capital Notes) occurs in respect of any Note or (ii) Euroclear or Clearstream, Luxembourg are closed for business for a continuous period of 14 days (weekends and public holidays excepted) or announce an intention permanently to cease business or have in fact done so and no alternative clearing system satisfactory to the Trustee is available. The relevant Issuer will promptly give notice to Noteholders in accordance with Condition 13 of the relevant Conditions if any such event occurs. In the event of the

occurrence of any such event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange.

For so long as any of the Notes is represented by a Bearer Global Note deposited with, or a Reg. S Global Note registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as entitled to a particular nominal amount of Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or its nominee as to the nominal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose such common depositary or its nominee shall be deemed to be the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Bearer Global Note or Reg. S Global Note and the Trust Deed (and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly).

Notes which are represented by a Global Note will be transferable only in accordance with the applicable procedures Euroclear and Clearstream, Luxembourg, in each case, to the extent applicable.

The following legend will appear on all Global Notes, Reg. S Global Notes, Definitive Notes, receipts and interest coupons in respect of obligations with an original maturity in excess of 365 days:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Bearer Notes, receipts or interest coupons.

Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes

*The following are the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes which will be endorsed on each Global Note and each Definitive Bearer Note or Individual Registered Note, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the relevant Issuer and the relevant Dealer at the time of issue but, if not so permitted by the relevant stock exchange (if any) and agreed by the relevant Issuer and the relevant Dealer at the time of issue but, if so permitted and agreed, such Definitive Bearer Note or Individual Registered Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and each Definitive Bearer Note or Individual Registered Note. Reference should be made to “**Form of the Notes and the Capital Notes**” above for a description of the content of Final Terms which will include the definitions of certain terms used in the following Terms and Conditions or specify which of such terms are to apply in relation in the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by Zurich Finance (Luxembourg) S.A. (“**ZF (Luxembourg)**”), Zurich Finance (USA), Inc. (“**ZF (USA)**”), Zurich Finance (UK) plc (“**ZF (UK)**”), Zurich Bank (“**Zurich Bank**”) or Zurich Insurance Company Ltd (“**ZIC**”) and, together with ZF (Luxembourg), ZF (USA), ZF (UK) and Zurich Bank, the “**Issuers**” and each an “**Issuer**”) and references in these Terms and Conditions to the “**relevant Issuer**” shall be to the issuer of the Notes named in the applicable Final Terms (as defined below), constituted by an amended and restated trust deed (as further modified and/or supplemented and/or restated from time to time, the “**Trust Deed**”) dated 11 June 2010 made between the Issuers, Zurich Financial Services Ltd (“**ZFS**”) and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include any successor as trustee).

References herein to the “**Notes**” shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a Global Note (which expression shall include any Temporary Global Note or Permanent Global Note or Permanent Global SIS Note or Reg. S Global Note, all as defined below), units of the lowest Specified Denomination in the Specified Currency; and
- (ii) in relation to any Notes in definitive bearer form (“**Definitive Bearer Notes**”) issued in exchange for an interest or interests in a Global Note in bearer form (“**Bearer Global Note**”), units of the lowest Specified Denomination in the Specified Currency; and
- (iii) in relation to Individual Registered Notes either issued as such or issued in exchange for a Reg. S Global Note, units of the lowest Specified Denomination in the Specified Currency.

The Final Terms for this Note (or the relevant provisions thereof) are attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, modify these Terms and Conditions for the purposes of this Note. References to the “**applicable Final Terms**” are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) are the subject of an amended and restated agency agreement (the “**Agency Agreement**” which expression shall, where the context permits, include any supplements or amendments thereto and any agency agreement relating to Listed Swiss Franc Notes as referred to in Condition 5(e)) dated 11 June 2010 and made between the Issuers, Citibank, N.A. as issuing and principal paying agent and agent bank (the “**Agent**”, which expression shall include any successor agent specified in the applicable Final Terms), the other paying agents named therein (together with the Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents), the registrars named therein (each, a “**Registrar**”, which expression shall include any additional or successor registrar), the transfer agents named therein (the “**Transfer Agents**”, which expression shall include any additional or successor transfer agents) and the Trustee.

Interest bearing Definitive Bearer Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (“**Coupons**”) and, if indicated in the applicable Final Terms, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Definitive Bearer Notes repayable in

instalments have receipts (“**Receipts**”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes do not have Receipts or Coupons attached on issue.

The Trustee acts for the benefit of the holders for the time being of the Notes (the “**Noteholders**”) in accordance with the provisions of the Trust Deed.

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed, the Agency Agreement, any applicable Senior ZIC Guarantee (as defined below), any applicable Subordinated ZIC Guarantee (as defined below) and the applicable Final Terms are available for inspection during normal business hours at the principal London office for the time being of the Trustee (being at the date of the Trust Deed at Citicorp Trustee Company Limited, 14th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB) and are available at the specified office of each of the Agent, the other Paying Agents, the Registrar and the Transfer Agents save that, if this Note is an unlisted Note of any Series, the applicable Final Terms will only be available for inspection at the principal London office of the Agent by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Trustee as to its holding of Notes and as to identity. The Noteholders, the holders of the Receipts (the “**Receiptholders**”) and the holders of the Coupons (the “**Couponholders**”) are deemed to have notice of, and are bound by, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement, the Senior ZIC Guarantee, the Subordinated ZIC Guarantee and the applicable Final Terms which are applicable to them.

Words and expressions defined in the Trust Deed, the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of any inconsistency between the Trust Deed or the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

1. Form, Denomination and Title

The Notes are either in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) as specified in the applicable Final Terms and, in the case of Definitive Bearer Notes or Individual Registered Notes, serially numbered, in the Specified Currency and the Specified Denomination(s) specified in the applicable Final Terms. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Indexed Interest Note, an Indexed Redemption Amount Note, an Instalment Note, a Dual Currency Note, a Partly Paid Note, each as defined in the applicable Final Terms, or a combination of any of the foregoing, depending upon the Interest/Payment Basis shown in the applicable Final Terms.

This Note is a Listed Swiss Franc Note if it is denominated or payable in Swiss francs and listed on the SIX Swiss Exchange and the applicable Final Terms so state.

Each Listed Swiss Franc Note will be represented exclusively by a Permanent Global SIS Note in bearer form which will be deposited with SIX SIS AG, Olten, Switzerland (“**SIS**”), or such other intermediary in Switzerland recognised for such purposes by the SIX Swiss Exchange (with respect to any such Permanent Global SIS Note, SIS or such other intermediary, the “**Intermediary**”) on or prior to the original issue date of such Note. As a matter of Swiss law, once the Permanent Global SIS Note has been deposited with the Intermediary and entered into the accounts of one or more participants of the Intermediary, the Listed Swiss Franc Notes represented thereby will constitute intermediated securities (*Bucheffekten*) within the meaning of the Swiss Federal Intermediated Securities Act (*Bucheffektengesetz*) (the “**Intermediated Securities**”). The Permanent Global SIS Note will be exchangeable for definitive Notes in whole but not in part only if the Swiss paying agent should, after consultation with the relevant Issuer, deem the printing of definitive Notes to be necessary or useful, or if the presentation of definitive Notes is required by Swiss or other applicable laws and regulations in connection with the enforcement of rights of Noteholders, or if the Swiss paying agent at any time at its discretion determines to have definitive Notes issued; holders of Listed Swiss Franc Notes will not have the right to effect or demand the exchange of the Permanent Global SIS Note representing such Listed Swiss Franc Notes into, or delivery of, Notes in definitive or un-certificated form. If definitive Notes are delivered, the relevant Permanent Global SIS Note will be immediately cancelled by the Swiss paying agent and the definitive Notes shall be delivered to the relevant holders against cancellation of the relevant Listed Swiss

Franc Notes in such holders' securities accounts. As a matter of Swiss law, a holder of an interest in the Permanent Global SIS Note retains a quotal co-ownership interest (*Miteigentumsanteil*) in the Permanent Global SIS Note to the extent of the Notes represented by such Permanent Global SIS Note in which such holder has an interest; provided, however, that, for so long as the Permanent Global SIS Note remains deposited with the Intermediary (i.e., for so long as the Notes represented thereby constitute Intermediated Securities), the co-ownership interest is suspended and the Notes represented thereby may only be transferred by the entry of the transferred Notes in a securities account of the transferee. For so long as Notes constitute Intermediated Securities, as a matter of Swiss law, (i) the records of the Intermediary will determine the number of Notes held through each participant of the Intermediary and (ii) the holders of such Notes will be the persons holding such Notes in a securities account (*Effektenkonto*) that is in their name or, in the case of intermediaries (*Verwahrungsstellen*), the intermediaries (*Verwahrungsstellen*) holding such Notes for their own account in a securities account (*Effektenkonto*) that is in their name.

Each Tranche of Bearer Notes may be initially represented by a temporary Global Note without Receipts, Coupons or Talons (a **“Temporary Global Note”**) or, if so specified in the applicable Final Terms, a permanent Global Note (a **“Permanent Global Note”**), which, if the Bearer Global Notes are not intended to be issued in new global note (**“NGN”**) form will be delivered to the common depositary for Euroclear Bank S.A./N.V. (**“Euroclear”**) and Clearstream Banking, *société anonyme*, Luxembourg (**“Clearstream, Luxembourg”**) and, if the Bearer Global Notes are intended to be issued in NGN form, will be delivered to the Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or after the end of the Distribution Compliance Period (as defined above), the Temporary Global Note will be exchangeable upon a request as described therein either for interests in a Permanent Global Note without Receipts, Coupons or Talons or for Definitive Bearer Notes (as indicated in the applicable Final Terms and subject, in the case of Definitive Bearer Notes to such notice period as is specified in the applicable Final Terms), in each case against certification to the effect that the beneficial owner of interests in such Temporary Global Note is not a US person or a person who has purchased for resale to any US person, as required by US Treasury regulations. Each Tranche of Bearer Notes may also be initially represented by a Permanent Global SIS Note (as defined in the Trust Deed). Unless otherwise specified in the applicable Final Terms, a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Notes with, where applicable, Receipts, Coupons and Talons attached (i) if an Event of Default (as defined in Condition 9) occurs in respect of any Note, (ii) if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (weekends and public holidays excepted) or announces an intention to cease business permanently or in fact does so and no alternative clearing system satisfactory to the Trustee is available or (iii), if so specified in the applicable Final Terms, at the option of the Noteholder, provided that, in the case of an issue of Notes with minimum denomination of EUR 50,000 and smaller integral multiples thereof only exchange events (i) or (ii) above will apply.

With respect to a particular Series of Registered Notes, the Registered Notes of each Tranche sold outside the United States in reliance on Regulation S under the US Securities Act of 1933, as amended, will, unless otherwise specified in the applicable Final Terms, be represented by a permanent global Note in registered form, without Receipts, Coupons or Talons, (the **“Reg. S Global Note”**) which will be registered in the name of Citivic Nominees Limited as nominee for, and will be deposited with Citibank, N.A. as common depositary for, and in respect of interests held through, Euroclear and Clearstream, Luxembourg. Notes in individual registered form (**“Individual Registered Notes”**) issued in exchange for Reg. S Global Notes or otherwise sold or transferred in reliance on Regulation S under the US Securities Act, together with the Reg. S Global Notes, are referred to herein as **“Reg. S Notes”**. Prior to expiry of the period that ends 40 days after completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer, in the case of a non-syndicated issue, or by the Lead Manager, in the case of a syndicated issue interests in a Reg. S Global Note may be held only through Euroclear or Clearstream, Luxembourg.

Individual Registered Notes from the date of issue may, if specified in the applicable Final Terms, be issued in reliance on Regulation S under the US Securities Act.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon the registration of transfers in accordance with the Agency Agreement and the Trust Deed. The relevant Issuer, ZIC (where ZIC is not the relevant Issuer), the Trustee, the Agent, any Paying Agent, the Registrar, and any Transfer Agent may (subject to applicable laws or as otherwise ordered by a court of competent jurisdiction or an official authority) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof for all purposes (whether or not it is overdue and notwithstanding any notice of ownership, trust or any interest in it, any writing on it or on the related Individual Registered Note or notice of any previous loss or theft of it) and no person will be liable for so treating the holder.

No person shall have any right to enforce any term or condition of this Note or the Trust Deed under the United Kingdom Contracts (Rights of Third Parties) Act 1999.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg.

ZF (USA) may only issue Notes in bearer form if such Notes are offered and sold in accordance with Regulation S under the US Securities Act and the Tax Equity and Fiscal Responsibility Act 1982 requirements under the US Internal Revenue Code and the Treasury Regulations thereunder.

References in these Terms and Conditions to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system (including SIS) approved by the relevant Issuer, the Trustee and the Agent and specified in the applicable Final Terms.

2. Status of the Notes

(a) Senior Notes

This Condition 2(a) is only applicable to senior Notes (“**Senior Notes**”) issued by the relevant Issuer which are described in the applicable Final Terms as being issued on an unsubordinated basis.

The Senior Notes and the relative Receipts and Coupons constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3(c)) unsecured obligations of the relevant Issuer and (subject as aforesaid) rank and will rank *pari passu*, without any preference among themselves save for statutorily preferred exceptions, with all other outstanding unsecured and unsubordinated obligations of the relevant Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors’ rights.

(b) Subordinated Notes

This Condition 2(b) is only applicable to dated subordinated notes (“**Dated Subordinated Notes**”) and undated subordinated notes (“**Undated Subordinated Notes**”) issued by the relevant Issuer. Dated Subordinated Notes and Undated Subordinated Notes are together referred to as “**Subordinated Notes**”. The provisions of this Condition 2(b) are subject to such further provisions in respect of Subordinated Notes as may be specified in the applicable Final Terms and Condition 2(c) below.

(c) Ranking on a winding-up

The Subordinated Notes and the relative Receipts and Coupons will, save as otherwise specified in the applicable Final Terms, constitute direct, subordinated and unsecured obligations of the relevant Issuer and will rank *pari passu*, without any preference, among themselves. The Subordinated Notes and relative Receipts and Coupons will, save as otherwise specified in the applicable Final Terms, rank on a winding-up of the relevant Issuer:

- (i) after the claims of any Senior Creditors (as defined below) of the relevant Issuer;
- (ii) *pari passu* with the claims (a) of the holders of Type A Capital Notes (as defined in the Trust Deed) (in the case where ZIC is the relevant Issuer); (b) of the holders of other Undated Subordinated Notes and Dated Subordinated Notes of the relevant Issuer; (c) of other creditors of the relevant Issuer whose claims rank or are expressed to rank *pari passu* with the claims of the Noteholders of any Undated Subordinated Notes or Dated Subordinated Notes of that Issuer or of any Type A Capital Notes (in the case where ZIC is the relevant Issuer); and (d) (in the case where ZIC is the relevant Issuer) under the Subordinated ZIC Guarantee (as defined below); and
- (iii) prior to claims of the holders of any Type B Capital Notes (as defined in the Trust Deed) (in the case where ZIC is the relevant Issuer), and of any other subordinated obligations of the relevant Issuer which rank or are expressed to rank junior to the claims of (a) the Noteholders of any Undated Subordinated Notes or Dated Subordinated Notes of that Issuer or, as appropriate, (b) under the Subordinated ZIC Guarantee.

Save as otherwise specified in the applicable Final Terms, in the event of a winding-up, liquidation, dissolution or other similar proceedings of the relevant Issuer, there shall be payable in such winding-up, liquidation or dissolution on each Subordinated Note, subject to and after the claims of all Senior Creditors and prior to any payment to the holders of debt that ranks or is expressly designated as ranking junior to the Subordinated Notes, or holders of issued shares at such time in the relevant Issuer, an amount equal

to the principal amount of such Subordinated Notes together with interest which has accrued up to, but excluding, the date of repayment (including any Arrears of Interest (as defined below)).

As used herein, save as otherwise specified in the applicable Final Terms, “**Senior Creditors**” of an entity means:

- (i) all unsubordinated creditors of that entity;
- (ii) all creditors of that entity whose claims are subordinated by operation of law or pursuant to their terms, to the claims of other unsubordinated creditors of that entity but not further or otherwise; and
- (iii) in the case of a relevant Issuer, all other subordinated creditors of that entity except those whose claims rank or are expressed to rank *pari passu* with or junior to the claims (a) of the Noteholders of the Undated Subordinated Notes or Dated Subordinated Notes of such relevant Issuer or, as appropriate, (b) under the Subordinated ZIC Guarantee.

Subject to applicable law, neither the Trustee nor any Noteholder of the Subordinated Notes may, save as otherwise specified in the applicable Final Terms, exercise or claim any right of set-off in respect of any amount owed to it by the relevant Issuer arising under or in connection with the Subordinated Notes and each such Noteholder of such Subordinated Note shall, by virtue of being the Noteholder of any of the Subordinated Notes, be deemed to have waived all such rights of set-off.

For the avoidance of doubt, the obligations of ZIC in relation to either Subordinated Notes issued by it or under a Subordinated ZIC Guarantee (see Condition 3(b) below) will, unless the applicable Final Terms provide otherwise, rank on a winding-up, liquidation, dissolution or other similar proceedings:

- (a) *pari passu with the obligations of ZIC in respect of its 425m 7.5% Subordinated Notes due 2039 and in respect of its guarantee of the Group’s 500m 5.75% Subordinated Notes due 2023, the 500m 4.5% Subordinated Notes due 2025, the £450m 6.625% Undated Subordinated Notes and any future Subordinated Notes issued by ZIC and Type A Capital Notes; and*
- (b) *senior to the obligations of ZIC in respect of its subordinated support agreements entered into in connection with the enhanced capital advantaged preferred securities (ECAPS) issued by ZFS Finance (USA) Trust I, ZFS Finance (USA) Trust II and ZFS Finance (USA) Trust III and the Trust Preferred Securities issued by ZFS Finance (USA) Trust IV and ZFS Finance (USA) Trust V and its obligations under the 143m 12% Capital Notes and any future Type B Capital Notes.*

3. Senior ZIC Guarantee, Subordinated ZIC Guarantee and Negative Pledge

(a) Senior ZIC Guarantee

Where the relevant Issuer is ZF (Luxembourg), ZF (USA), ZF (UK) or Zurich Bank, the payment of principal and interest in respect of Senior Notes (together with any additional amounts payable under Condition 7 and all other moneys payable under the Trust Deed) up to a specified maximum amount has been unconditionally and irrevocably guaranteed by ZIC pursuant to a guarantee agreement dated the issue date of the relevant Tranche of Notes (the “**Senior ZIC Guarantee**”). Each Senior ZIC Guarantee provides that the Guarantor will within seven days of receipt by it of notice from the Trustee confirming that a payment referred to in the preceding sentence has become due and remains unpaid make such payment, provided that such notice from the Trustee shall, however, not be submitted to the Guarantor before seven days have passed since the due date on which such amount due under the relevant Tranche of Notes or the Trust Deed should have been paid. The Senior ZIC Guarantee, which is governed by Swiss law, is limited to a maximum amount stated in the relevant Senior ZIC Guarantee. The obligations of ZIC under the Senior ZIC Guarantee in respect of unsubordinated Notes constitute direct, unconditional, unsubordinated and unsecured obligations of ZIC and (subject as aforesaid) rank and will rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of ZIC, present and future, save for statutorily preferred exceptions, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors’ rights. No Noteholder, Couponholder or Receiptholder will be entitled to proceed directly against ZIC unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

(b) Subordinated ZIC Guarantee

Where the relevant Issuer of Subordinated Notes is ZF (Luxembourg), ZF (USA), ZF (UK) or Zurich Bank, the payment of principal and interest in respect of the Subordinated Notes (together with any additional amounts payable under Condition 7 and all other moneys payable under the Trust Deed) up to a specified maximum amount has been irrevocably guaranteed on a subordinated basis by ZIC pursuant to a guarantee agreement dated the issue date of the relevant Tranche of the Subordinated Notes (the “**Subordinated ZIC Guarantee**”). Each Subordinated ZIC Guarantee provides that the Guarantor will, within seven days of receipt by it of notice from the Trustee confirming that a payment referred to in the preceding sentence has become due and remains unpaid, make such payment, provided that such notice from the Trustee shall, however, not be submitted to the Guarantor before seven days have passed

since the due date on which such amount due under the relevant Tranche of the Subordinated Notes or the Trust Deed should have been paid. The Subordinated ZIC Guarantee, which is governed by Swiss law, is limited to the maximum amount stated in the relevant Subordinated ZIC Guarantee. The obligations of ZIC under the Subordinated ZIC Guarantee in respect of the Subordinated Notes issued by the relevant Issuer constitute direct, subordinated and unsecured obligations of the Guarantor. Claims in respect of the Subordinated ZIC Guarantee will, in the event of a winding-up, liquidation, dissolution or other similar proceedings of the Guarantor (like “**Nachlassstundung**”), rank *pari passu* with the claims of holders of Subordinated Notes issued by ZIC as described in Condition 2(c).

For the avoidance of doubt, the Guarantor’s obligations under the guarantee agreements between Zurich Holding Company of America, Zurich Insurance Company Ltd and Bank of New York, as the guarantee trustee, dated 30 May 1997 shall rank senior to the Subordinated ZIC Guarantee. Each Subordinated ZIC Guarantee provides that Noteholders may not exercise any rights of set-off in respect of any amount owed to them by the Issuer or the Guarantor in respect of the Subordinated Notes.

(c) Negative Pledge

This Condition 3(c) is only applicable to Senior Notes.

So long as any of the Notes of the relevant Series remains outstanding (as defined in the Trust Deed), the relevant Issuer (except where ZIC or Zurich Bank is the relevant Issuer) will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of its undertaking, property, assets or revenues present or future to secure any Relevant Debt, or to secure any guarantee of or indemnity in respect of any Relevant Debt, unless, at the same time or prior thereto, such Issuer’s obligations under the Notes, the Receipts, the Coupons and the Trust Deed (i) are secured equally and rateably therewith to the satisfaction of the Trustee, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders of the relevant Series or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders of the relevant Series.

For the purposes of this Condition, “**Relevant Debt**” means any present or future indebtedness of the relevant Issuer or any other person in the form of, or represented by, bonds, notes, debentures, loan stock or other securities of such Issuer or such other person which are, or are capable of being, quoted, listed or ordinarily traded on any stock exchange, over-the-counter or other securities market.

4. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year and (if applicable) on the Maturity Date or other date fixed for redemption if that does not fall on an Interest Payment Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

If interest is required to be calculated for a period ending other than on an Interest Payment Date, such interest shall be calculated by applying the Rate of Interest to each calculation amount as specified in the applicable Final Terms (“**Calculation Amount**”) multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

For the purposes of these Conditions “**Fixed Day Count Fraction**” means:

- (i) if “**Actual/Actual (ICMA)**” is specified in the applicable Final Terms:
 - (a) where the relevant period (from and including the first day to but excluding the last day) is equal to or shorter than the Regular Period during which it falls, the actual number of days in the relevant period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods normally ending in any year; and

- (b) where the relevant period (from and including the first day to but excluding the last day) is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such relevant period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such relevant period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) number of Regular Periods normally ending in any year;
- (ii) if “**30/360**” is specified in the applicable Final Terms, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360; and

“**Regular Period**” means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “Regular Date” means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “Regular Date” means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

“**sub-unit**” with respect to any currency other than euro, means the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Floating Rate Notes and Indexed Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Indexed Interest Note bears interest on its nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no express Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to but excluding the next Interest Payment Date).

If the business day convention is specified in the applicable Final Terms and if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the business day convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business

Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition, “**Business Day**” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments in London and any Additional Business Centre specified in the applicable Final Terms; and
- (B) either (1) in relation to interest payable in Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre) or (2) in relation to interest payable in euro, a day on which the TARGET system is operating.

For the purposes of these Conditions “**TARGET system**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007 or any successor thereto.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Indexed Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (**LIBOR**) or the European inter-bank offered rate (**EURIBOR**) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

When this sub-paragraph (A) applies, in respect of each relevant Interest Period the Agent will be deemed to have discharged its obligations under Condition 4(b)(iv) in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (A).

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations, expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time or in the case of EURIBOR, Brussels time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation appears or, in the case of (ii) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than the London inter-bank offered rate or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iii) *Minimum and/or Maximum Interest Rate*

If the applicable Final Terms specify a Minimum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Interest Rate, the Rate of Interest for such Interest Period shall be such Minimum Interest Rate.

If the applicable Final Terms specify a Maximum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Interest Rate, the Rate of Interest for such Interest Period shall be such Maximum Interest Rate.

(iv) *Determination of Rate of Interest and Calculation of Interest Amounts*

The Agent, in the case of Floating Rate Notes, or the Calculation Agent specified in the applicable Final Terms, in the case of Indexed Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Indexed Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the “**Interest Amount**”) payable on the Floating Rate Notes or Indexed Interest Notes in respect of each Calculation Amount for the relevant Interest Period.

Each Interest Amount shall be calculated by applying the Rate of Interest to each Calculation Amount, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest of any Interest Period:

- (A) if “Actual/Actual” or “Actual/Actual/ISDA” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

- (C) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (D) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_{(2)} - Y_{(1)})] + [30 \times (M_{(2)} - M_{(1)})] + (D_{(2)} - D_{(1)})}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30;

- (E) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_{(2)} - Y_{(1)})] + [30 \times (M_{(2)} - M_{(1)})] + (D_{(2)} - D_{(1)})}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₂ will be 30.

- (F) if “30E/360 (ISDA)” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_{(2)} - Y_{(1)})] + [30 \times (M_{(2)} - M_{(1)})] + (D_{(2)} - D_{(1)})}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case **D₂** will be 30.

(v) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the relevant Issuer and any stock exchange on which the relevant Floating Rate Notes or Indexed Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined below) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange, listing authority and/or quotation system by which the relevant Floating Rate Notes or Indexed Interest Notes are for the time being admitted to listing, trading and/or quotation and to the Noteholders in accordance with Condition 13. In these Conditions “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) Determination or Calculation by Trustee

If for any reason the Agent or, as the case may be, the Calculation Agent at any time after the Issue Date defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraphs (ii) and (iv) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any minimum or maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent or the Calculation Agent, as applicable.

(vii) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), whether by the Agent or the Trustee or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the relevant Issuer, ZIC (where ZIC is not the relevant Issuer), the Trustee, the Agent, the Calculation Agent (if applicable), the other Paying Agents, the Registrar and any Transfer Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the relevant Issuer, ZIC (where ZIC is not the relevant Issuer), the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent, the Trustee or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) Dual Currency Notes

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Final Terms.

(d) Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) Accrual of Interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

(f) Special provisions in relation to Subordinated Notes

This Condition 4(f) is only applicable to Subordinated Notes:

(i) Optional deferral of interest

If so specified in the applicable Final Terms, there may be paid, on each Optional Interest Payment Date, interest accrued in respect of the Interest Period which ends on such Optional Interest Payment Date but the relevant Issuer shall have the option to defer payment of interest on the Notes which would otherwise be payable on such date. If so specified in the applicable Final Terms, notwithstanding the other provisions of this Condition 4(f)(i) but without prejudice to the provisions of Condition 4(f)(ii), if as at any Optional Interest Payment Date FINMA or any Successor Authority no longer accords any regulatory capital credit to the Notes under the Applicable Regulations (as defined below), the relevant Issuer will only be allowed to exercise its option under this Condition 4(f)(i) to defer payment of interest on the Notes on such Optional Interest Payment Date for a period of up to five years (a “**Fixed Term Deferred Interest Payment**”). The deferral of any interest payment on any Optional Interest Payment Date in accordance with this Condition 4(f)(i) will not constitute an Event of Default by the relevant Issuer and will not give Noteholders or the Trustee any right to accelerate the Notes or make a demand under the relevant Subordinated ZIC Guarantee. The relevant Issuer, failing whom, the Guarantor, shall notify the Trustee and the Noteholders, immediately as soon as it becomes aware that an Interest Payment Date will be an Optional Interest Payment Date in respect of which payment is deferred of the amount of such payment otherwise due on that date and the grounds upon which such deferral has been made. The relevant Issuer may defer paying interest on each Optional Interest Payment Date until the Notes become due and payable as described in Condition 4(f)(iii).

For the purpose of this Condition 4(f), “**Optional Interest Payment Date**” means any Interest Payment Date in respect of which during the six month period ending thereon (i) no dividend has been declared or paid on any class of share capital of ZFS; (ii) and (provided at the relevant time the existence of this requirement (ii) does not cause a Regulatory Event) no interest payments have been made on any junior or *pari passu* ranking securities of the relevant Issuer or Guarantor (unless such payment was compulsory on such securities or required due to the repayment of such securities).

(ii) Solvency Deferral of Interest

If Solvency Deferral is specified in the applicable Final Terms as being applicable and a Solvency Event has occurred and is continuing as at the relevant Deferral Determination Date and the Solvency Deferral Condition is satisfied as at the relevant Interest Payment Date, then, in relation to any Interest Payment which is otherwise scheduled to be paid on an Interest Payment Date, the relevant Issuer shall defer such Interest Payment, and shall defer the relevant Solvency Shortfall if, were the relevant Issuer to make payment of the relevant Interest Payment, a Solvency Event would as at the date of such payment occur except that the relevant Issuer will not be required to defer such Interest Payment or Solvency Shortfall, as the case may be, if FINMA or any Successor Authority applicable at the time has given its consent to such payment. The deferral of any Interest Payment or part thereof in accordance with this Condition 4(f)(ii) will not constitute an Event of Default and will not give Noteholders or the Trustee any right to accelerate the Notes or make a demand under the relevant Subordinated ZIC Guarantee. The relevant Issuer, failing whom the Guarantor, shall give notice of such deferral to the Trustee (together with the certificate of the occurrence of a Solvency Event referred to below), and to the Noteholders in accordance with Condition 13 not less than seven days prior to the relevant Interest Payment Date. A certificate as to the occurrence of a Solvency Event and the satisfaction of the Solvency Deferral Condition signed by two Directors of the relevant Issuer or ZFS, shall, in the absence of manifest error, be treated and accepted by the relevant Issuer, the Noteholders, the Trustee, the Receiptholders, the Couponholders and all other interested parties as correct and sufficient evidence thereof. The Trustee shall be entitled to rely upon such certification absolutely without liability to any person.

As used herein:

“**Applicable Regulations**” means, with respect to the Relevant Entity at any time, the regulatory capital requirements applicable to such entity and/or its group at such time including, but not limited to, such insurance regulatory law (for group solvency or single solvency and/or financial conglomerate purposes, as applicable) and/or applicable generally recognised administrative practice, if any, of FINMA or any Successor Authority.

“Assets” means, where ZIC is specified in the relevant Final Terms as being the Relevant Entity, ZIC’s consolidated total assets and, where ZFS is specified in the relevant Final Terms as being the Relevant Entity, ZFS’s consolidated total assets, each as shown in its latest annual audited balance sheet, but adjusted for all subsequent events, as reasonably determined by the Relevant Entity, or if the Relevant Entity is being liquidated, its liquidator.

“Deferral Determination Date” means, in respect of an Interest Payment Date, the 20th business day in Zurich preceding such Interest Payment Date.

“FINMA” means the Swiss Financial Market Supervisory Authority (FINMA) in Switzerland which the former Federal Office of Private Insurance (FOPI) was merged into as of 1 January 2009.

“Interest Payment” means, with respect to an Interest Payment Date, the interest scheduled to be paid on such Interest Payment Date.

“Liabilities” means, where ZIC is specified in the applicable Final Terms as being the Relevant Entity, ZIC’s consolidated total liabilities and, where ZFS is specified in the applicable Final Terms as being the Relevant Entity, ZFS’s consolidated total liabilities, each as shown in its latest annual audited balance sheet, but adjusted for all subsequent events, as reasonably determined by the Relevant Entity, or if the Relevant Entity is being liquidated, its liquidator.

“Relevant Entity” means ZIC and/or ZFS, as specified in the applicable Final Terms.

The **“Solvency Deferral Condition”** will be satisfied with respect to any Interest Payment Date if a Solvency Event has occurred prior to such Interest Payment Date and is continuing as at the relevant Deferral Determination Date and in the period from and including the date of the occurrence of such Solvency Event to and including such Interest Payment Date:

- (i) no dividend has been declared or paid on any class of share capital of ZFS; and
- (ii) (at any time the existence of this requirement (ii) does not cause a Regulatory Event (as defined below)) no payment of interest (or equivalent) have been made on any securities of the relevant Issuer or the Guarantor which rank, or are expressed to rank, junior to or *pari passu* with the Notes (unless such payment was compulsory on such securities or required due to the repayment of such securities).

A **“Solvency Event”** shall be deemed to have occurred as at any date if as at such date:

- (i) the Relevant Entity does not at such date have appropriate funds to cover the required minimum solvency margin or meet any other required level of own funds regulatory capital (or another applicable term in case of a change in Applicable Regulations) in accordance with Applicable Regulations and a deferral or, as applicable, cancellation of interest is required under the Applicable Regulations; or
- (ii) the Relevant Entity is unable to pay its debts owed to its Senior Creditors (as defined in Condition 2(c)) as they fall due; or
- (iii) the Relevant Entity’s Assets do not exceed its Liabilities (each as defined above) (other than liabilities to persons who are not Senior Creditors); or
- (iv) FINMA or a Successor Authority has given (and not withdrawn) notice to the Relevant Entity that it has determined, in view of the financial and/or capital position of the Relevant Entity, that in accordance with Applicable Regulations at such time, the relevant Issuer must take specified action in relation to payments on the Notes.

“Solvency Shortfall” means the portion of interest that would cause a Solvency Event to occur or be continuing.

“Successor Authority” means any domestic or foreign successor to FINMA or otherwise that has primary supervisory authority over ZIC and/or the Zurich Financial Services Group.

(iii) *Arrears of Interest*

Any interest in respect of the Notes not paid on an Interest Payment Date (including any Solvency Shortfall), together with any other interest in respect thereof not paid on any earlier Interest Payment Date, in each case by virtue of this Condition 4(f), shall, so long as

the same remains unpaid, constitute “**Arrears of Interest**”. Arrears of Interest and any other amount, payment of which is deferred in accordance with this Condition 4(f), shall not themselves bear interest. Any Arrears of Interest and any other amount, payment of which is deferred in accordance with this Condition 4(f) may, if so specified in the applicable Final Terms and subject to obtaining the prior written approval of FINMA or any Successor Authority (if such approval is required under Applicable Regulations at the relevant time), be satisfied at the option of the relevant Issuer in whole or in part, at any time upon the expiry of not less than 15 nor more than 30 days’ notice to such effect given by the relevant Issuer or the Guarantor to the Trustee and to the Noteholders in accordance with Condition 13 and in any event such Arrears of Interest and any other amount payment of which is deferred in accordance with this Condition 4(f) will, save as otherwise specified in the applicable Final Terms and as provided below, automatically become immediately due and payable upon the earliest of the following dates:

- (A) the date upon which a dividend is next declared or paid on any class of share capital of ZFS; or
- (B) the date of redemption, substitution or variation of any Notes pursuant to Condition 6(a), Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f); or
- (C) the commencement of the winding-up or dissolution of the relevant Issuer or, as the case may be, the Guarantor (except for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or a reconstruction the terms of which shall have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Noteholders or as a result of a Permitted Reorganisation); or
- (D) the date upon which the relevant Issuer or, as the case may be, the Guarantor pays interest on any other junior or *pari passu* securities of the relevant Issuer or the Guarantor (unless such payment was compulsory on such securities or required due to the repayment of such securities); or
- (E) in the case of a Fixed Term Deferred Interest Payment only, the fifth anniversary of the Optional Interest Payment Date on which such payment was deferred.

Notwithstanding the foregoing, Arrears of Interest arising pursuant to Condition 4(f)(ii) will only be due and payable by reason of items (A) and (D) above following the prior written approval of FINMA or any Successor Authority (if such approval is required under Applicable Regulations at the relevant time).

5. Payments

(a) Method of Payment

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is New Zealand dollars, shall be Auckland); and
- (ii) payments in euro will be made by credit or transfer to an euro account specified by the payee.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7. References to “Specified Currency” will include any successor currency under applicable law.

(b) Presentation of Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 5(a) above only against presentation and surrender (or, in the case of part payment only, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment only, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

In respect of Definitive Bearer Notes payments of instalments of principal (if any), other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5(a) above against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Receipt in the manner provided in the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 5(a) above only against presentation and surrender of the relevant Definitive Bearer Note in the manner provided in the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the relevant Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Indexed Interest Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note becoming due and repayable, all unmatured Talons (if any) appertaining hereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Indexed Interest Note or Long Maturity Note (as defined below) in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. Where any such Definitive Bearer Note is presented for redemption without all unmatured Receipts, Coupons or Talons relating to it, redemption shall be made only against the provision of such indemnity as the relevant Issuer may require. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Definitive Bearer Note shall cease to be a Long Maturity Note on the Fixed Interest Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any Definitive Bearer Note is not a Fixed Interest Date or an Interest Payment Date, interest (if any) accrued in respect of such Definitive Bearer Note from (and including) the preceding Fixed Interest Date or Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Bearer Note.

Payments of principal and interest (if any) in respect of Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes and otherwise in the manner specified in the relevant Bearer Global Note against presentation or surrender, as the case may be, of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of such Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note by such Paying Agent and such record shall be prima facie evidence that the payment in question has been made.

The holder of a Bearer Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Bearer Global Note and the relevant Issuer or, as the case may be, ZIC will be discharged by payment to, or to the order of, the holder of such Bearer Global Note in respect of each amount so paid.

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of this Bearer Global Note is payable in US dollars, such US dollar payments of principal and/or interest in respect of this Bearer Global Note will be made at the specified office of a Paying Agent in the United States if:

- (i) the relevant Issuer and ZIC (where ZIC is not the relevant Issuer) have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in US dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;

- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in US dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the relevant Issuer and ZIC (where ZIC is not the relevant Issuer), adverse tax consequences to the relevant Issuer or ZIC (where ZIC is not the relevant Issuer).

Payments of principal in respect of Registered Notes (whether in individual or global form) will be made in the manner provided in Condition 5(a), above against presentation and surrender (or, in the case of part payment of any sum due only, endorsement) of such Registered Global Note or Individual Registered Notes at the specified office of the Registrar or at the specified office of any Paying Agent. Payments of interest due on a Registered Note (whether in individual or global form) and payments of instalments (if any) of principal on a Registered Note, other than the final instalment, will be made to the person in whose name such Note is registered at the close of business on the fifteenth day (whether or not such fifteenth day is a business day (being for the purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) (the “Record Date”)) prior to such due date. In the case of payments by cheque, cheques will be mailed to the holder (or the first named of joint holders) at such holder’s registered address on the due date. If payment is required by credit or transfer as referred to in Condition 5(a) above, application for such payment must be made by the holder to the Registrar not later than the relevant Record Date.

(c) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment of the amount due until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, and unless otherwise specified in the applicable Final Terms, “**Payment Day**” means any day which is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, in any Payment Business Centre specified in the applicable Final Terms and in the relevant place of presentation; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Business Centre) or (2) in relation to Notes denominated or payable in euro, a day on which the TARGET system is operating.

(d) Interpretation of Principal and Interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 7 or pursuant to any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed;
- (ii) the Final Redemption Amount (as specified in the applicable Final Terms) of the Notes;
- (iii) the Early Redemption Amount (as specified in the applicable Final Terms) of the Notes;
- (iv) the Optional Redemption Amount(s) (as specified in the applicable Final Terms) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts (as specified in the applicable Final Terms);
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as specified in the applicable Final Terms); and
- (vii) any premium and any other amounts which may be payable by the relevant Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

(e) Payments on Listed Swiss Franc Notes

The receipt by the Principal Paying Agent named in the applicable Final Terms (the “**Principal Paying Agent**”) from the relevant Issuer of each payment in full of principal and/or interest then due in respect of any Listed Swiss Franc Notes at the time and in the manner specified in the agency agreement appointing the Principal Paying Agent to act as such in relation to the Listed Swiss Franc Notes shall (except to the extent that such payment is avoided or set aside for any reason) satisfy the obligation of the relevant Issuer under such Notes to make such payment on such date and shall (except as aforesaid) release it from all further obligations in respect of such payment.

(f) Definitions

In this Condition 5, the following expressions have the following meanings:

“**Established Rate**” means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into Euro established by the Council of the European Union pursuant to Article 109l(4) of the Treaty establishing the European Community;

“**Euro**” means the single currency adopted by those states participating in European Monetary Union from time to time.

6. Redemption and Purchase

(a) At Maturity

This Condition 6(a) is applicable to Notes other than Undated Subordinated Notes.

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the relevant Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date provided that, in the case of Dated Subordinated Notes if so specified in the applicable Final Terms, if a Solvency Event has occurred and is continuing on the Maturity Date or would occur as a result of the relevant redemption, the Dated Subordinated Notes shall not be redeemed unless the prior written approval of FINMA or any Successor Authority for such payment has been given. If a Solvency Event has occurred and is continuing on the Maturity Date and no prior written approval as aforesaid has been given, each Dated Subordinated Note will be redeemed by the relevant Issuer promptly following either the obtaining of such written approval or no Solvency Event continuing (including, following the relevant redemption) and the giving of not more than 30 nor less than 15 days’ notice to such effect by the relevant Issuer to the Trustee and to Noteholders in accordance with Condition 13. References herein to “**Maturity Date**” shall be construed accordingly to refer to such later date of redemption and, for the avoidance of doubt, interest shall continue to accrue (without compounding) as provided in Condition 4 on any such Dated Subordinated Note until such later date of redemption.

A certificate as to the occurrence and/or continuation of a Solvency Event and as to whether or not written approval of FINMA or any Successor Authority as aforesaid has been given signed by two Directors of the relevant Issuer or ZFS, shall, in the absence of manifest error be treated and accepted by the relevant Issuer, to Noteholders, the Trustee, the Receiptholders, the Couponholders and all other interested parties as correct and sufficient evidence thereof. The Trustee shall be entitled to rely upon such certification absolutely without liability to any person.

(b) Redemption of Undated Subordinated Notes

This Condition 6(b) is only applicable to Undated Subordinated Notes.

Each Note has no final maturity date and is only redeemable or repayable in accordance with the following provisions of this Condition 6 and Condition 9(b).

(c) Redemption for Tax Reasons

The Notes of any Series may be redeemed at the option of the relevant Issuer, subject to Condition 6(n), in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Indexed Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Indexed Interest Note) at their principal amount, together, if applicable, with interest accrued to the date fixed for redemption and any Arrears of Interest, on giving not less than 30 nor more than 60 days’ notice to the Trustee and the Agent and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

- (i) on the occasion of the next payment due under the Notes, (A) the relevant Issuer is or will become obliged to pay additional amounts as provided or referred to in Condition 7 or (B) ZIC (where ZIC is not the relevant Issuer) would be unable for reasons outside its control to procure payment by the relevant Issuer and in making payment itself would be required to pay such additional amounts, in each of cases (A) and (B) as a result of (1) any current law (in the case of an issue of Undated Subordinated Notes) or (2) (in the case of an issue of Senior Notes, Dated Subordinated Notes or Undated Subordinated Notes) change in, or amendment to, the laws or regulations of the Relevant Jurisdictions (as defined below) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes of the relevant Series; and
- (ii) such obligation cannot be avoided by the relevant Issuer or, as the case may be, ZIC (where ZIC is not the relevant Issuer) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the relevant Issuer or, as the case may be, ZIC (where ZIC is not the relevant Issuer) would be obliged to pay such additional amounts were a payment in respect of the Notes then due; or
- (iii) save as otherwise specified in the applicable Final Terms, on the next Interest Payment Date the payment of interest in respect of any Undated Subordinated Notes would (whether or not as a result of a change in or amendment of law or regulation as aforesaid) (i) in the case of Notes issued by ZF (UK), be treated as a “distribution” within the meaning of the UK Corporation Tax Act 2010 (as amended, re-enacted or replaced) or (ii) not be deductible as an expense for tax purposes of the relevant Issuer, in each case for reasons outside the control of and which cannot be avoided by, the relevant Issuer taking reasonable measures available to it.

Prior to the publication of any notice of redemption pursuant to this Condition, the relevant Issuer shall deliver to the Trustee a certificate signed by two Directors of the relevant Issuer or, as the case may be, two Directors of ZIC (where ZIC is not the relevant Issuer) stating that the relevant Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the relevant Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the relevant Issuer or, as the case may be, ZIC (where the relevant Issuer is not ZIC), has or will become obliged to pay such additional amounts as a result of such circumstances, change or amendment and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

In these Conditions, “**Relevant Jurisdiction**” means, unless otherwise specified in the applicable Final Terms (i) Luxembourg and Switzerland, in the case of Notes issued by ZF (Luxembourg), (ii) each of the United States and Switzerland, in the case of Notes issued by ZF (USA), (iii) Switzerland, in the case of Notes issued by ZIC, (iv) United Kingdom and Switzerland, in the case of Notes issued by ZF (UK); and (v) Ireland and Switzerland, in the case of Notes issued by Zurich Bank.

Notes redeemed pursuant to this Condition 6(c) will be redeemed at their Early Redemption Amount referred to in Condition 6(f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(d) Redemption for Other Reasons

This Condition 6(d) is only applicable to Subordinated Notes.

The Notes may, subject to Condition 6(n), be redeemed at the option of the relevant Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Indexed Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Indexed Interest Note) (provided that if at any time the inclusion of a redemption option due to a Capital Event (as defined below) would cause a Regulatory Event the relevant date for redemption may only fall on or after the fifth anniversary of the Issue Date) at the Regular Redemption Price or the Special Redemption Price, as specified in the applicable Final Terms, together, if applicable, with interest accrued to the date fixed for redemption and any Arrears of Interest on giving not less than 30 nor more than 60 days’ notice to the Trustee and, in accordance with Condition 13, the Noteholders (which shall be irrevocable), if the relevant Issuer satisfies the Trustee immediately before the giving of such notice that:

- (i) if so specified in the applicable Final Terms, a Capital Event has occurred and is continuing; or
- (ii) if so specified in the applicable Final Terms, a Regulatory Event has occurred and is continuing.

As used herein:

“Capital Event” means a change by a nationally recognised statistical rating organisation to its equity credit criteria, or the interpretation or application thereof, for securities such as the Notes, as such criteria are in effect on the Issue Date (the **“current criteria”**), which change has been confirmed in writing to the relevant Issuer or ZIC by such organisation and which results in a lower equity credit being given to the Notes as of the date of such change by such nationally recognised statistical rating organisation as compared with the equity credit pursuant to its current criteria.

“Future Regulations” means the solvency margin, regulatory capital or capital adequacy regulations (if any) which may be introduced in Switzerland (or if ZFS becomes domiciled for regulatory purposes in a jurisdiction other than Switzerland, such other jurisdiction) and which are applicable to the relevant Issuer and/or ZFS, which would set out the requirements to be satisfied by financial instruments in order that they be eligible to be included in Tier Two (or equivalent) own funds regulatory capital.

“Regulatory Event” means the occurrence of any of the following events which occurrence cannot be avoided by the relevant Issuer or the Guarantor or ZFS taking such reasonable measures as they (acting in good faith) deem appropriate:

- (A) prior to the implementation of the Future Regulations, FINMA or any Successor Authority states that the Notes are no longer eligible to qualify as at least lower additional capital (in the case of Dated Subordinated Notes) or upper additional capital (in the case of Undated Subordinated Notes) pursuant to Art. 49 in connection with Art. 39 of the SPICO (as defined below), and no longer fulfil the requirements for such category, or equivalent thereof, for group or solo solvency purposes; or
- (B) with effect from the implementation of the Future Regulations, the Notes do not qualify as at least Tier Two own funds (or equivalent) under such Future Regulations (or an official application or interpretation of those regulations including a decision of a court or tribunal)

save, in each case above, where such non-qualification thereof applicable to the Notes is only as a result of any applicable limitation on the amount of such capital.

“SPICO” means the Ordinance on the Supervision of Private Insurance Companies (*Verordnung über die Beaufsichtigung von privaten Versicherungsunternehmen — AVO*) of 9 November 2005, as amended.

“Special Event” means any of a Capital Event or a Regulatory Event or any combination of the foregoing.

Prior to the publication of any notice of redemption pursuant to this Condition, the relevant Issuer shall deliver to the Trustee a certificate signed by two Directors of the relevant Issuer stating that the circumstances described in the definitions of Capital Event or Regulatory Event (as appropriate) have occurred and that, in the case of a Regulatory Event, such Regulatory Event cannot be avoided by the Issuer, Guarantor or, as the case may be, ZFS taking such measures as are provided for in the definition of Regulatory Event to avoid such Regulatory Event and the Trustee shall be entitled to accept such certificate as sufficient evidence that the circumstances described in the relevant Special Event apply, in which event it shall be conclusive and binding on the Noteholders, Receiptholders and the Couponholders. In the case of a Capital Event, prior to the publication of any notice of redemption, the relevant Issuer shall also deliver a copy of the relevant written confirmation of the rating organisation referred to in the definition of Capital Event.

The Trustee is under no obligation to ascertain whether any Special Event or any event which could lead to the occurrence of, or could constitute, any such Special Event, has occurred and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no such Special Event has occurred.

(e) Redemption at the Option of the Relevant Issuer

If the relevant Issuer is specified in the applicable Final Terms as having an option to redeem, such Issuer may, subject to Condition 6(n) and having given:

- (i) not less than 15 nor more than 30 days’ notice to the Noteholders in accordance with Condition 13; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Trustee and the Agent;

(which notices shall be irrevocable), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount equal to the Minimum Redemption Amount or a Higher Redemption Amount. In the case of a partial redemption of

Notes, the Notes to be redeemed (“**Redeemed Notes**”) will be selected individually by lot in a manner approved by the Trustee, in the case of Redeemed Notes represented by Definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “Selection Date”). In the case of Redeemed Notes represented by Definitive Bearer Notes or Individual Registered Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by Definitive Bearer Notes or Individual Registered Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of Definitive Bearer Notes or Individual Registered Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this Condition 6(e) and notice to that effect shall be given by the relevant Issuer to the Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

(f) Substitution or Variation

This Condition 6(f) is only applicable to Subordinated Notes.

If any of the events described in Condition 6(c) or 6(d) has occurred and is continuing, then the relevant Issuer may, subject to Condition 6(n), (without any requirement for the consent or approval of the Noteholders) and subject to having satisfied the Trustee immediately prior to the giving of such notice referred to herein that the provisions of this Condition 6(f) have been complied with and having given not less than seven days’ written notice to the Trustee and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), at any time either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Securities and the Trustee shall (subject as provided below and to the following provision of this Condition 6(f) being complied with and subject further to the receipt by the Trustee of a certification by the Directors of the relevant Issuer referred to below) agree to such substitution or variation. In connection therewith, all Arrears of Interest (if any) will be paid.

Upon the expiry of such notice, the relevant Issuer shall either vary the terms of, or substitute, the Notes in accordance with this Condition 6(f), as the case may be. The Trustee shall not be obliged to participate in any substitution or variation of the Notes for any proposed alternative Qualifying Securities if the terms of the proposed alternative Qualifying Securities would impose, in the Trustee’s opinion, more onerous obligations on it.

As used herein, “**Qualifying Securities**” means securities:

- (a) having terms that are not less favourable to an investor than the terms of the Notes (as reasonably determined by the relevant Issuer, and provided that a certification to such effect of two Directors of the relevant Issuer shall have been delivered to the Trustee prior to the issue of the relevant securities); and
- (b) issued by the relevant Issuer or issued by another member of the Zurich Financial Services Group with a guarantee by the relevant Issuer and, as appropriate, Guarantor, such that investors have the same material rights and claims as provided by the Notes (as reasonably determined by the relevant Issuer, and provided that a certification to such effect of two Directors shall have been delivered to the Trustee prior to the issue of the relevant securities); and
- (c) ranking at least equal to the Notes and featuring the same principal amount, interest rate (including applicable margins and step-up), Interest Payment Dates and Optional Redemption Dates as the Notes; and
- (d) listed on an internationally recognised stock exchange, if the Notes were listed prior to such substitution or variation.

In addition, any substitution or variation is subject to (A) all interest amounts accrued and due, including Arrears of Interest, being satisfied in full on or prior to the date thereof; (B) compliance with Condition 6(n); (C) the substitution or variation not itself giving rise to a change in any published rating of the Notes in effect at such time as confirmed in writing by the rating organisations who have given such published rating of the Notes previously; (D) the substitution or variation not triggering the right on the part of the relevant Issuer to redeem the Notes pursuant to Condition 6(c) or 6(d); and (E) certification by two Directors of the relevant Issuer that the securities in question are “**Qualifying Securities**” in accordance with the definition set out above and that the conditions set out

herein have been complied with, which such certificate shall be delivered to the Trustee prior to the substitution or variation of the relevant securities and upon which certificate the Trustee shall be entitled to rely absolutely without liability to any person.

In connection with any substitution or variation as described above, the relevant Issuer will comply with the rules of any stock exchange or other relevant authority on which the Notes are then listed or admitted to trading.

(g) Redemption at the Option of the Noteholders

This Condition 6(g) is only applicable to Senior Notes.

If the Noteholders are specified in the applicable Final Terms as having an option to redeem, upon the holder of any Note giving to the relevant Issuer in accordance with Condition 13 not less than 15 nor more than 30 days' notice the relevant Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

If a Note is in individual or definitive form, to exercise the right to require redemption of such Note the holder of the Note must deliver such Note in individual or definitive form at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **"Put Notice"**) and in which the holder must (subject to the terms of Condition 5) specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition.

The Paying Agent with which a Note in individual or definitive form is so deposited shall deliver a duly completed receipt for such Note (a **"Put Option Receipt"**) to the depositing Noteholder. No Definitive Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 6(g), may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date, any such Note in individual or definitive form becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date, payment of the redemption moneys is improperly withheld or refused, the Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Notice and shall hold such Note in individual or definitive form at its specified office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note in individual or definitive form is held by a Paying Agent in accordance with this Condition 6(g), the depositor of such Note in individual or definitive form and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

If a Note is in global form, the Noteholder shall comply with the procedures of the relevant Clearing System so as to enable such Clearing System to procure the giving of a Put Notice as provided by this Condition 6(g).

(h) Early Redemption Amounts

For the purpose of Condition 6(c) above and Condition 9, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of Notes (other than Zero Coupon Notes but including Instalment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at their nominal amount; or
- (iii) in the case of Zero Coupon Notes, at an amount (the **"Amortised Face Amount"**) equal to the sum of:
 - (a) the Reference Price specified in the applicable Final Terms; and
 - (b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made on the basis of a 360 day year consisting of 12 months of 30 days each or such other calculation basis as may be specified in the applicable Final Terms.

(i) Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6(h) above.

(j) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(k) Purchases

The relevant Issuer, ZIC (where ZIC is not the relevant Issuer) or any of ZIC's Subsidiaries (as such term is defined in the Trust Deed) may subject to Condition 6(n), in the case of Restricted Notes subject to Condition 10(1), at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, resold or, at the option of the relevant Issuer or ZIC (where ZIC is not the relevant Issuer), surrendered to any Paying Agent or the Registrar for cancellation.

(l) Cancellation

All Notes which are redeemed or purchased and surrendered for cancellation will forthwith be cancelled (together, in the case of Definitive Bearer Notes, with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 6(i) above (together in the case of Definitive Bearer Notes with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(m) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 6(a), (c), (d), (e) or (g) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 6(h)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable has been received by the Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 13.

(n) Condition to redemption, substitution or variation of Subordinated Notes

Any redemption, substitution, variation of the terms or purchase of Subordinated Notes in accordance with Condition 6(c), (d), (e), (f) or (k) is subject to the relevant Issuer obtaining the prior written consent of FINMA or any Successor Authority thereto provided that such consent is required at that time under applicable capital or solvency regulations to be obtained.

7. Taxation

(a) Notes issued by ZF (Luxembourg) or ZF (UK)

In the case of Notes issued by ZF (Luxembourg) or ZF (UK), all payments under the Trust Deed, the Notes, the Receipts and the Coupons will be made without withholding or deduction for or on account of any taxes or duties of whatever nature imposed or levied by or on behalf of the Relevant Jurisdiction or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, ZF (Luxembourg) or ZF (UK), as the case may be, will pay such additional amounts ("Additional Amounts") as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would

otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Note, Receipt or Coupon presented for payment:

- (i) in Luxembourg, in the case of Notes issued by ZF (Luxembourg);
- (ii) by or on behalf of a Noteholder, Receiptholder or Couponholder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with the United Kingdom (in the case of ZF (UK)) or Luxembourg (in the case of ZF (Luxembourg)) or Switzerland (in the case of payments made by ZIC) other than the mere holding of such Note, Receipt or Coupon;
- (iii) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an Additional Amount on presenting the same for payment on such thirtieth day;
- (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or, introduced in order to conform to, such Directive; or
- (v) by or on behalf of a Noteholder, Receiptholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a member state of the EU.

As used herein, the **“Relevant Date”** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 13.

(b) Notes issued by ZF (USA)

In the case of Notes issued by ZF (USA), all payments under the Trust Deed, the Notes, the Receipts and the Coupons will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Relevant Jurisdiction or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, ZF (USA) will pay such additional amounts (**“Additional Amounts”**) as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; provided that the obligations of ZF (USA) to pay Additional Amounts shall not apply as a result of a withholding or deduction on account of any one or more of the following:

- (i) any tax, assessment or other governmental charge which would not have been imposed but for (A) the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of a power over, such holder, if such holder is an estate, a trust, a partnership, a corporation or another entity) and the United States or any political subdivision or territory or possession thereof, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or possessor) being or having been a citizen or resident or treated as a resident thereof or being or having been present or engaged in trade or business therein or having or having had a permanent establishment therein or otherwise having or having had some connection with the United States or such political subdivision, territory or possession other than the mere holding or ownership of a Note, Receipt or Coupon or (B) such holder’s present or former status as a domestic or foreign personal holding company or a controlled foreign corporation with respect to the United States or a corporation which accumulates earnings to avoid United States federal income tax;
- (ii) any tax, assessment or other governmental charge which would not have been so imposed but for presentation by the holder of a Note, Receipt or Coupon for payment on a date more than 15 days after the Relevant Date;
- (iii) any estate, inheritance, gift, sales, transfer or personal property tax or any similar tax, assessment or other governmental charge;
- (iv) any tax, assessment or other governmental charge which would not have been imposed but for the failure to comply with certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or

connection with the United States or any political subdivision thereof of (A) the holder or beneficial owner of such Note, Receipt or Coupon, or (B) for taxes, assessments or other governmental charges imposed with respect to payments made after December 31, 2012, the holder or beneficial owner of (x) a financial account maintained by the holder or beneficial owner of such Note, Receipt, or Coupon or (y) a financial interest in the holder or beneficial owner of such Note, Receipt or Coupon, if such compliance is required by a statute or treaty or by regulation or administrative practice of the United States Treasury Department as a precondition to relief or exemption from all or part of such tax, assessment or other governmental charge;

- (v) any tax, assessment or other governmental charge which is (A) payable otherwise than by withholding from payments of or in respect of principal of or interest on such Note, Receipt or Coupon or (B) required to be withheld by a Paying Agent from any such payment, if such payment can be made without such withholding by any other Paying Agent outside the United States;
- (vi) any tax, assessment or other governmental charge imposed on interest received by a person holding, actually or constructively, 10 per cent or more of the total combined voting power of all classes of stock of ZF (USA) or certain of their respective affiliates entitled to vote;
- (vii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or, introduced in order to conform to, such Directive;
- (viii) where such Note, Receipt or Coupon is presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a member state of the EU; or
- (ix) any combination of items (i) through (viii) above;

nor will Additional Amounts be paid with respect to principal or interest on such Note, Receipt or Coupon to any United States Alien which is a fiduciary or partnership or beneficial owner of such Note, Receipt or Coupon to the extent such payment would be required by the laws of the United States (or any political subdivision or taxing authority thereof or therein) to be included in the income, for tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note, Receipt or Coupon.

The term **“United States Alien”** means any person who, for United States federal income tax purposes, is a foreign corporation, a non-resident alien individual, a fiduciary of a foreign estate or foreign trust, or a foreign partnership or other entity one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary of a foreign estate or trust.

(c) Notes issued by Zurich Bank

All payments of principal and interest in respect of the Notes, Receipts and Coupons issued by Zurich Bank will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Relevant Jurisdiction or any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In the event that Zurich Bank or any person acting on its behalf is required by law to make any such withholding or deduction, Zurich Bank will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (i) presented for payment in Ireland; or
- (ii) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with Ireland other than the mere holding of such Note, Receipt or Coupon; or

- (iii) presented for payment more than 30 days after the Relevant Date (as defined in Condition 7 (a) above) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day; or
- (iv) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is or was able to avoid such withholding or deduction by presenting any form or certificate or by making a declaration of non-residence or other claim for exemption; or
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (vi) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (vii) presented for payment where such Note (or such Note to which a Receipt or Coupon relates) is not listed on a stock exchange recognised by the Revenue Commissioners of Ireland and either:
 - (a) if such Note does not mature within two years of the date of its issue:
 - (A) it is issued in a denomination of less than 50 0,000 or its equivalent; or
 - (B) it is not cleared through a clearing system recognised by the Revenue Commissioners of Ireland; or
 - (C) it has been knowingly offered or sold to an Irish resident, or to a person whose usual place of abode is Ireland; or
 - (b) if such Note matures within two years of the date of its issue:
 - (A) it is issued in a denomination of less than 50 0,000 if the relevant Note is denominated in euro, less than USD500,000 if the relevant Note is denominated in US dollars or, if the relevant Note is denominated in a currency other than euro or US dollars, less than the equivalent of 500,000 in that other currency as at the date the Programme is first publicised; or
 - (B) it is not cleared through a clearing system recognised by the Revenue Commissioners of Ireland.

(d) Notes issued by ZIC

In the case of Notes issued by ZIC, all payments of principal and interest in respect of the Notes, Receipts and Coupons issued by ZIC will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Relevant Jurisdiction or any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In the event that ZIC or any person acting on its behalf is required by law to make any such withholding or deduction, ZIC will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (i) if Notes other than Restricted Notes are issued;
- (ii) presented for payment by or on behalf of a Noteholder, Couponholder or Receiptholder which is liable to such taxes, duties, assessments or governmental charges in respect of that Note, Receipt or Coupon by reason of it having some connection with the Relevant Jurisdiction other than the mere holding of that Note, Receipt or Coupon;
- (iii) presented for payment more than 30 days after the Relevant Date (as defined in Condition 7(a) above), except to the extent that the relevant holder would have been entitled to payment of an additional amount or recalculated interest if it had presented its Note, Receipt or Coupon for payment on the 30th day after the Relevant Date, on the assumption if such is not the case, that such last day is a Business Day;

- (iv) where such withholding or deduction is imposed on a payment to an individual or a residual entity and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (v) presented for payment by or on behalf of a holder who/would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to a Paying Agent in another Member State of the European Union;
- (vi) (if so specified in the applicable Final Terms) if the payment could have been made to the relevant Noteholder, Couponholder or Receiptholder without such withholding or deduction if it were a Qualifying Lender (as defined below), but on that date that Noteholder, Couponholder or Receiptholder is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Noteholder, Couponholder or Receiptholder under these Conditions in (or in the interpretation, administration, or application of) any law or double taxation treaty, or any published practice or concession of any relevant taxing authority; or
- (vii) if the payment could have been made without such withholding or deduction if the Noteholders had complied with Conditions 10(j) and 10(k) (if Condition 10(j) is expressed in the applicable Final Terms to apply).

As used in the Conditions:

“Guidelines” means, together, the guideline “Interbank Loans” of 22 September 1986 (S-02.123) (*Merkblatt “Verrechnungssteuer auf Zinsen von Bankguthaben, deren Gläubiger Banken sind (Interbankguthaben)” vom 22. September 1986*); the guideline “Syndicated Loans” of January 2000 (S-02.128) (*Merkblatt “Steuerliche Behandlung von Konsortialdarlehen, Schuldscheindarlehen, Wechseln und Unterbeteiligungen” vom Januar 2000*); the guideline “Bonds” of April 1999 (S 02.122.1) (*Merkblatt “Obligationen” vom April 1999*); the guideline “Client Credit Balances” of April 1999 (S-02.122.2) (*Merkblatt Kundenguthaben vom April 1999*); and the circular letter No. 15 (1-015-DVS-2007) of 7 February 2007 in relation to bonds and derivative financial instruments as subject matter of Swiss federal income tax, Swiss federal withholding tax and Swiss federal stamp taxes (*Kreisschreiben Nr. 15 “Obligationen und derivative Finanzinstrumente als Gegenstand der direkten Bundessteuer, der Verrechnungssteuer und der Stempelabgaben” vom 7. Februar 2007*), each as issued, and as amended from time to time, by the Swiss federal tax authorities.

“Non-Bank Rules” means the Ten Non-Bank Rule and the Twenty Non-Bank Rule (each as defined below).

“Permitted Non-Qualifying Lender” means in respect of a Series of Restricted Notes a person or entity which is not a Qualifying Bank on the date it becomes a Noteholder and:

- (i) is initially a Permitted Non-Qualifying Lender (if any) specified in the applicable Final Terms (for so long as that Permitted Non-Qualifying Lender continues to be a Noteholder in accordance with the Conditions), or
- (ii) is a successor of an initial Permitted Non-Qualifying Lender, or any subsequent successor thereof, by way of Transfer (as defined in Condition 10(j)) of all but not some only of the Restricted Notes held by such initial Permitted Non-Qualifying Lender, or such subsequent successor thereof (for so long as that successor continues to be a Noteholder in accordance with the Conditions), which:
 - (a) has prior to its becoming a Noteholder, satisfied all obligations to be fulfilled by a proposed Permitted Non-Qualifying Lender in accordance with Condition 10(j), provided that:
 - (A) within ten (10) Business Days of notification to it by the existing Permitted Non-Qualifying Lender of the identity of such proposed Permitted Non-Qualifying Lender, the Issuer may, as a condition precedent to such proposed Permitted Non-Qualifying Lender becoming a Noteholder:
 - (i) request from that proposed Permitted Non-Qualifying Lender a confirmation that it has disclosed to the Issuer all facts relevant to the determination as to whether it would be a Permitted Non-Qualifying Lender and would constitute one (1) person only for purposes of the Non-Bank Rules; and
 - (ii) irrespective of whether a request is made in accordance with paragraph (a)(A)(i) above, request from that proposed Permitted Non-Qualifying Lender a tax ruling of the Swiss Federal Tax Administration (at the cost of

the existing Permitted Non-Qualifying Lender or the proposed Permitted Non-Qualifying Lender), confirming to the Issuer's satisfaction that such proposed Permitted Non-Qualifying Lender does constitute one (1) person only for purposes of the Non-Bank Rules; and

(B) the Issuer, acting reasonably, shall confirm within ten (10) Business Days of notification of all facts (if a request in accordance with paragraph (a)(A)(i) above has been made) or receipt of a tax ruling (if a request in accordance with paragraph (a)(A)(ii) above has been made) whether or not such disclosure, or such tax ruling, as the case may be, is satisfactory and, in the absence of such confirmation, the Issuer shall be deemed to have confirmed such disclosure, or such tax ruling, as the case may be, is so satisfactory on the tenth (10th) Business Day after receipt hereof or thereof; and

(b) has, simultaneously with becoming a Noteholder, succeeded the existing Permitted Non-Qualifying Lender as "Permitted Non-Qualifying Lender" under all, but not some only, Restricted Notes of the respective Series, and under any and all other existing or future Series of Restricted Notes, as the case may be, or similar instruments, between the issuer and the existing Permitted Non-Qualifying Lender (or any successor thereof).

"Permitted Non-Qualifying Lenders" means in respect of a Series of Restricted Notes the number of Permitted Non-Qualifying Lenders specified in the applicable Final Terms.

"Qualifying Bank" means a person or entity which effectively conducts banking activities with its own infrastructure and staff as its principal business purpose and which has a banking licence in full force and effect issued in accordance with the banking laws in force in its jurisdiction of incorporation, or if acting through a branch, issued in accordance with the banking laws in the jurisdiction of such branch.

"Qualifying Lender" means a Noteholder which is a Qualifying Bank or a Permitted Non-Qualifying Lender.

"Restricted Notes" means Notes issued by ZIC in accordance with Conditions 10(j) and 10(k).

"Ten Non-Bank Rule" means the rule that the aggregate number of Noteholders under a Series of Restricted Notes which are not Qualifying Banks must not at any time exceed ten, in each case in accordance with the meaning of the Guidelines.

"Twenty Non-Bank Rule" means the rule that the aggregate number of the Issuer's lenders (including Noteholders), other than Qualifying Banks, under all outstanding debts relevant for classification as debenture (*Kassenobligation*), such as intra-Group loans, facilities and/or private placements (including under Restricted Notes and Notes not classified as a taxable bond (*Anleiheobligation*)) must not at any time exceed twenty, in each case in accordance with the meaning of the Guidelines.

8. Prescription

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5(b) or any Talon which would be void pursuant to Condition 5(b).

The Luxembourg Act dated 3 September 1996 on the involuntary dispossession of bearer securities, as amended, requires that any amount that is payable under the Bearer Notes (if any) before opposition (if applicable) in relation to the Bearer Notes has been filed but not yet been paid to the holder of the Bearer Notes is paid to the *Caisse de Consignation* in Luxembourg until the opposition has been withdrawn or has elapsed.

9. Events of Default

(a) Senior Notes

This Condition 9(a) is only applicable to Senior Notes.

The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders shall

(subject, in the case of the happening of any of the events set out in Conditions 9(a)(ii), (iii), (v), (vi), (vii) and (ix) (to the extent that it applies to Conditions 9(a)(v), (vi) and (vii)) below, to the Trustee having certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders and, in all cases to the Trustee having been indemnified and/or secured to its satisfaction), give notice (the “**default notice**”) in writing to the relevant Issuer and ZIC (where ZIC is not the relevant Issuer) that the Notes are immediately due and repayable if any of the following events (“**Events of Default**”) shall have occurred and be continuing:

- (i) there is a failure by the relevant Issuer or ZIC (where ZIC is not the relevant Issuer) to pay principal or interest on any of the Notes when due and such failure continues for a period of fourteen days; or
- (ii) a default is made by the relevant Issuer or ZIC (where ZIC is not the relevant Issuer) in the performance or observance of any other covenant, condition or provision contained in the Trust Deed or in the Notes and on its part to be performed or observed (other than the covenant to pay principal and interest in respect of any of the Notes) and (except where the Trustee certifies in writing that, in its opinion, such default is not capable of remedy, when no such notice as mentioned below shall be required) such default continues for the period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the relevant Issuer or ZIC, as the case may be, of notice requiring such default to be remedied; or
- (iii) if any other indebtedness of the relevant Issuer or ZIC (where ZIC is not the relevant Issuer) for borrowed moneys is declared due and payable prior to the due date for payment thereof by reason of default on the part of the relevant Issuer or ZIC (where ZIC is not the relevant Issuer), or if any such indebtedness is not repaid on the due date for payment thereof (or by the expiry of any applicable grace period), or any guarantee or indemnity in respect of indebtedness for borrowed moneys given by the relevant Issuer or ZIC (where ZIC is not the relevant Issuer) is not honoured when due and called upon or at the expiry of any applicable grace period, save in any such case where the relevant payment liability is being contested in good faith and by appropriate means, provided that no such event as aforesaid shall constitute an Event of Default unless the amount declared due and payable or not paid, either alone or when aggregated with other such amounts then declared due and payable or not paid by such Issuer or ZIC (where ZIC is not the relevant Issuer), shall amount to at least USD300,000,000 or its equivalent in other currencies; or
- (iv) a resolution is passed or an order of a court of competent jurisdiction is made that the relevant Issuer or ZIC (where ZIC is not the relevant Issuer) be wound up or dissolved or the relevant Issuer or ZIC (where ZIC is not the relevant Issuer) stops payment or ceases business, or disposes (other than in the ordinary course of its business) of the whole or substantially the whole of its assets, otherwise than in any such case for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction the terms of which shall have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Noteholders or as a result of a Permitted Reorganisation; or
- (v) an encumbrancer or a person with similar functions appointed for execution (in Switzerland, a Sachwalter or Konkursverwalter) takes possession or a receiver is appointed of the whole or substantially the whole of the assets or undertaking of the relevant Issuer or ZIC (where ZIC is not the relevant Issuer) or a distress, execution or seizure before judgment is levied or enforced upon or sued out against any substantial part of the property, assets or revenues of the relevant Issuer or ZIC (where ZIC is not the relevant Issuer) unless discharged, stayed or removed within 60 days thereof (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) or being contested in good faith and by appropriate means; or
- (vi) the relevant Issuer or ZIC (where ZIC is not the relevant Issuer) is insolvent or bankrupt or unable to pay its debts as and when they fall due or the relevant Issuer or ZIC (where ZIC is not the relevant Issuer) shall initiate or consent or become subject to proceedings relating to itself under any applicable bankruptcy, liquidation, insolvency, composition, Nachlassvertrag, faillite, administration, examinership, or insolvency law or make a general assignment for the benefit of, or enter into any composition with, its creditors or notifies the court of its financial situation in accordance with Article 725(2) of the Swiss Code of Obligations or enters into a moratorium (Stundung); or
- (vii) proceedings shall have been initiated against the relevant Issuer or ZIC (where ZIC is not the relevant Issuer), under any applicable bankruptcy, composition, administration or insolvency law in respect of a sum claimed in aggregate of at least USD200,000,000 or its equivalent in other currencies unless such proceedings are discharged or stayed within a period of 60 days (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) or are being contested in good faith and by appropriate means; or
- (viii) if the relevant Issuer is ZF (Luxembourg), ZF (USA), ZF (UK) or Zurich Bank, if the Senior ZIC Guarantee ceases to be, or is claimed by ZIC not to be, in full force and effect; or

- (ix) where ZIC is not the relevant Issuer, the relevant Issuer (excluding ZF (UK) and Zurich Bank) ceases to be a subsidiary wholly-owned and controlled, directly or indirectly, by ZIC, unless such cessation is as a result of a Permitted Reorganisation or is previously approved either in writing by the Trustee or by an Extraordinary Resolution of Noteholders; or
- (x) any event occurs which under applicable laws has an analogous effect to any of the events referred to in paragraphs (iv) to (vii) above.

(b) Subordinated Notes

This Condition 9(b) is only applicable to Dated Subordinated Notes and Undated Subordinated Notes and is subject to such other provisions as may be specified in the applicable Final Terms.

(i) Events of Default for Dated Subordinated Notes and Undated Subordinated Notes

The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders shall (but, in each case, subject to the Trustee having been indemnified and/or secured to its satisfaction), give notice to the relevant Issuer and the Guarantor that the Notes are immediately due and repayable if any of the following events shall have occurred and be continuing:

- (a) subject to the provisions of Condition 4(f), there is a failure by the relevant Issuer to pay principal or interest on any of the Notes when due and such failure continues for a period of fourteen days; or
- (b) a resolution is passed or an order of a court of competent jurisdiction is made that the relevant Issuer or the Guarantor be wound up or dissolved otherwise than for the purpose of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction the terms of which shall have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Noteholders or as a result of a Permitted Reorganisation.

(ii) Proceedings for Winding-up

If the Notes become due and repayable (whether pursuant to Condition 9(b)(i), Condition 6(c) or 6(d) or 6(e) or otherwise) and are not paid when so due and repayable, the Trustee may at its discretion institute proceedings for the winding-up of the relevant Issuer but may take no further action to enforce the obligations of the relevant Issuer for payment of any principal or interest (including Arrears of Interest, if any) in respect of the Notes.

If the Guarantor fails to pay to the Trustee (pursuant to the relevant Subordinated ZIC Guarantee and the Trust Deed) an amount claimed under the relevant Subordinated ZIC Guarantee, the Trustee may at its discretion institute proceedings for the winding-up of the Guarantor but may take no further action to enforce the obligations of the Guarantor under the relevant Subordinated ZIC Guarantee.

No payment in respect of the Notes may be made by the relevant Issuer pursuant to Condition 9(b)(i), nor will the Trustee accept the same, otherwise than during or after a winding-up of the relevant Issuer.

(iii) Enforcement

Without prejudice to Condition 9(b)(i) or (ii) above (including, for the avoidance of doubt, the Trustee's right to make a demand under the relevant Subordinated ZIC Guarantee), however, in the case of Restricted Notes, subject to Conditions 10(j) and 10(k), the Trustee may at its discretion and without further notice institute such proceedings against the relevant Issuer or, as the case may be, the Guarantor as it may think fit to enforce any obligation, condition or provision binding on the relevant Issuer or, as the case may be, the Guarantor under the Trust Deed, the Notes or the Coupons (other than any obligation for the payment of any principal or interest in respect of the Notes or the Coupons) provided that the relevant Issuer and the Guarantor shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

(iv) Rights of Noteholders

No Noteholder or Couponholder shall be entitled to proceed directly against the relevant Issuer or, as the case may be, the Guarantor or to prove in the winding-up of the relevant Issuer or, as the case may be, the Guarantor unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in

which case the Noteholders or Couponholder shall have only such rights against the relevant Issuer or, as the case may be, the Guarantor as those which the Trustee is entitled to exercise. Any such proceedings brought by any Noteholder or Couponholder shall be brought in the name of the Trustee, subject to such Noteholder or Couponholder indemnifying the Trustee to its satisfaction.

(v) Extent of Noteholders' remedy

No remedy against the relevant Issuer or the Guarantor other than as referred to in this Condition 9(b), shall be available to the Trustee or the Noteholders or Couponholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the relevant Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

In this Condition:

“Permitted Reorganisation” means an amalgamation, merger, consolidation, reorganisation or other similar arrangement entered into by the relevant Issuer or ZIC (where ZIC is not the relevant Issuer) under which:

- (a) the whole or a substantial part of the business, undertaking and assets of the relevant Issuer or, as the case may be, ZIC are transferred to and all the liabilities and obligations of the Issuer or, as the case may be, ZIC are assumed by the new or surviving entity either:
 - (i) automatically by operation of applicable law; or
 - (ii) the new or surviving entity assumes all the obligations of the Issuer or, as the case may be, ZIC, under the terms of the Trust Deed, and the Notes and (as the case may be) the Senior ZIC Guarantee or the Subordinated ZIC Guarantee, as fully as if (and to the same extent in terms of ranking in a winding-up) it had been named in the Trust Deed and the Notes and (as the case may be) the Senior ZIC Guarantee or the Subordinated ZIC Guarantee, in place of the Issuer or, as the case may be, ZIC; and, in either case,
- (b) the new or surviving entity will immediately after such amalgamation, merger, consolidation, reorganisation or other similar arrangement be subject to the same regulation and supervision by the same regulatory authority (if any) as the relevant Issuer or (as the case may be) ZIC was subject immediately prior thereto.

10. Exchange of Notes, transfer of Registered Global Notes, interests in Reg. S Notes, Individual Registered Notes and Replacement of Notes, Receipts, Coupons and Talons

(a) Exchange of Bearer Notes for Registered Notes

If so specified in the applicable Final Terms, a Bearer Note in definitive form may be exchanged for Registered Notes of like aggregate nominal amount (in individual registered form) by submission of a duly completed request for exchange substantially in the form provided in the Agency Agreement (an **“Exchange Request”**), copies of which are available from the specified office of the Registrar or any Transfer Agent, together with the Definitive Bearer Note and all unmatured Coupons, Talons and Receipts appertaining thereto, to a Transfer Agent at its specified office. Within five business days (being for this purpose, a day on which commercial banks and foreign exchange markets are open for business in the jurisdiction of the relevant Transfer Agent) of the request, in relation to Individual Registered Notes for which the Definitive Bearer Note is to be exchanged, the relevant Transfer Agent will authenticate (and in the case of an NGN, effectuate) and deliver, or procure the authentication (and in the case of an NGN, effectuation) and delivery of, at its specified office to the holder or (at the risk of the holder) send by mail to such address as may be specified by the holder in the Exchange Request, the Individual Registered Note(s) of a like aggregate nominal amount to the Definitive Bearer Note(s) exchanged and will enter the exchange of the Definitive Bearer Note(s) in the Register maintained by the Registrar as of the Exchange Date.

Exchange Requests may not be presented on or after the Record Date (as defined in Condition 5(b)) in respect of any Interest Payment Date up to and including such Interest Payment Date. Interest on Individual Registered Notes issued on exchange will accrue as from the immediately preceding Interest Payment Date, as the case may be. No exchanges of Bearer Notes for Registered Notes or interests in Registered Global Notes will be permitted for so long as the Bearer Notes are represented by a Temporary Bearer Global Note.

(b) Exchange of interests in Registered Global Notes for Individual Registered Notes

Interests in the Reg. S Global Note will be exchangeable for Individual Registered Notes in the following limited circumstances: (i) if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday,

statutory or otherwise) or announces its intention permanently to cease business or does in fact do so and no alternative clearance system acceptable to the Trustee is available or (ii) the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of Noteholders under the Notes represented by such Registered Global Note, and the Trustee has been advised by counsel that in connection with such proceedings it is necessary or appropriate for the Trustee to obtain possession of Individual Registered Notes representing the Registered Global Note. Upon the occurrence of any of the events described in the preceding sentence, the relevant Issuer will cause the appropriate Individual Registered Notes to be delivered, provided that notwithstanding the above, no Individual Registered Notes will be issued until expiry of the applicable Distribution Compliance Period.

(c) Transfers of Registered Global Notes

Transfers of a Registered Global Note shall be limited to transfers of such Registered Global Note, in whole but not in part, to a nominee of Euroclear or Clearstream, Luxembourg or to a successor of any of them or such successor's nominee.

(d) Transfers of interests in Reg. S Notes

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of an interest in, a Reg. S Note to a transferee in the United States will only be made pursuant to the US Securities Act or an exemption therefrom, subject to receipt by the relevant Issuer of such satisfactory evidence as such Issuer may reasonably require, which may include an opinion of US counsel, that such transfer is in compliance with any applicable securities laws of any state of the United States, and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

After expiry of the applicable Distribution Compliance Period such certification requirements will no longer apply to such transfers.

(e) Exchanges and transfers of Registered Notes generally

Registered Notes may not be exchanged for Bearer Notes.

Transfers of interests in Reg. S Global Notes will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. An interest in a Reg. S Global Note will be transferable and exchangeable for Individual Registered Notes or for an interest in another Reg. S Global Note only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg (the **"Applicable Procedures"**).

Upon the terms and subject to the conditions set forth in the Agency Agreement, an Individual Registered Note may be transferred in whole or in part (in the authorised Denominations set out in the applicable Final Terms) by the holder or holders surrendering the Individual Registered Note for registration of the transfer of the Individual Registered Note (or the relevant part of the Individual Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and upon the Registrar or, as the case may be, the relevant Transfer Agent, after due and careful enquiry, being satisfied with the documents of title and the identity of the person making the request and subject to such reasonable regulations as the relevant Issuer and the Registrar, or as the case may be, the relevant Transfer Agent may with the prior approval of the Trustee prescribe, including any restrictions imposed by the relevant Issuer on transfers of Registered Notes in individual form originally sold to a US person. Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within five business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Individual Registered Note of a like aggregate nominal amount to the Registered Note (or the relevant part of the Individual Registered Note) transferred. In the case of the transfer of part only of an Individual Registered Note, a new Individual Registered Note in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

Exchanges or transfers by a holder of an Individual Registered Note for an interest in, or to a person who takes delivery of such Individual Registered Note through, a Reg. S Global Note will be made no later than 60 days after the receipt by the Registrar or as the case may be, relevant Transfer Agent of the Individual Registered Note to be so exchanged or transferred and, if applicable, upon receipt by the Registrar of a written certification from the transferor.

(f) Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 6(e), the relevant Issuer shall not be required:

- (i) to register the transfer of Registered Notes (or parts of Registered Notes) during the period beginning on the sixty-fifth day before the date of the partial redemption and ending on the date on which notice is given specifying the serial numbers of Notes called (in whole or in part) for redemption (both inclusive); or
- (ii) to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(g) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during the period of 30 days ending on the due date for any payment of principal or interest on that Note.

(h) Costs of exchange or registration

The transfer of a Note will be effected without charge by or on behalf of the relevant Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require from the Noteholder in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent, in the case of a Bearer Note, Receipt or Coupon, or the Registrar, in the case of an Individual Registered Note, or any other place approved by the Trustee of which notice shall have been published in accordance with Condition 13, upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the relevant Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

(j) Restrictions on Transfer of Certain Notes

- (i) In the case of Notes issued by ZIC, if the applicable Final Terms designate the Notes as Restricted Notes, (but not otherwise) the provisions of this Condition 10(j) shall apply and the Restricted Notes will be issued as Registered Notes and may only be assigned, or transferred, including upon an enforcement of a security, (a “**Transfer**” and “**Transferred**” shall be construed accordingly):

- (a) in whole or in part, if the Transfer is to a Qualifying Bank, provided that in the case of a Transfer of the Restricted Notes in part, the Restricted Notes may not be transferred to more than the number of Qualifying Banks specified in the applicable Final Terms, or
- (b) in whole, but not in part (except for parts of Restricted Notes held by Qualifying Banks at the time), if the Transfer is to a Permitted Non-Qualifying Lender,

provided that no Transfer under this Condition 10(j) may result in more Permitted Non-Qualifying Lenders being Noteholders than as specified in the applicable Final Terms.

The Restricted Notes will bear a legend setting forth the applicable transfer restrictions provided for in this Condition 10(j).

- (ii) A Noteholder may at any time require that the Issuer replaces such Noteholder’s certificate(s) representing the Restricted Notes with certificates in minimum denominations equal to the Restricted Note Minimum Denomination Amount specified in the applicable Final Terms.
- (iii) Restricted Notes may only be Transferred in amounts equal to the Restricted Note Transfer Amount specified in the applicable Final Terms.
- (iv) Any Transfer of a Restricted Note shall be recorded by the Registrar in the Register on production of:

- (a) the relevant certificate representing the Restricted Note and certification delivered to the Registrar by the transferee to the effect that it is a Qualifying Bank or Permitted Non-Qualifying Lender; and
 - (b) such other evidence as the Issuer may require.
- (v) Subject to this Condition 10(j), no Noteholder shall at any time enter into any arrangement with another person under which such Noteholder transfers all or part of its interest in the Restricted Notes to that other person, unless under such arrangement throughout the life of such arrangement:
- (a) the relationship between the Noteholder and that other person is that of debtor and creditor (including in the bankruptcy or similar event of that Noteholder or the Issuer),
 - (b) the other person will have no proprietary interest in the benefit of the Restricted Notes or in any monies received by the Noteholder under or in relation to the Restricted Notes held by that Noteholder; and
 - (c) the other person will under no circumstances (other than by way of permitted Transfer under this Condition 10(j)) be subrogated to, or substituted in respect of, the Noteholder's claims under its Restricted Notes and otherwise have any contractual relationship with, or rights against, the Issuer under or in relation to, the Restricted Notes.

For the avoidance of doubt, the granting of security in accordance with Condition 10(k) shall not constitute a transfer of an exposure under the Restricted Notes for the purposes of this Condition 10(j).

- (vi) As of the Issue Date and for so long as the Restricted Notes are outstanding, the Issuer will ensure that it is in compliance with the Non-Bank Rules, provided that the Issuer will not be in breach if either of the Non-Bank Rules are exceeded solely by the failure by one or more Noteholders to comply with the limitations set forth in this Condition 10(j) or in Condition 10(k).

(k) Grants of Security

If the applicable Final Terms provide that the Notes are Restricted Notes, then the following provisions of this Condition 10(k) shall apply but not otherwise. Any Noteholder may, without the consent of the Issuer, at any time charge or create a security interest in all or any portion of its rights under any Restricted Notes to secure obligations of such Noteholder; provided that:

- (i) no such charge or creation of a security interest shall:
 - (a) substitute any such chargee or holder of the benefit of such security interest for such Noteholder as Noteholder except in accordance with the provisions of Condition 10(j); or
 - (b) require any payments to be made by the Issuer other than as required by the Restricted Notes. A copy of any notice of charge or creation of security interest as envisaged in this paragraph shall be delivered to the Agent and the Agent shall not be obliged to take any action in regard to such notice; and
- (ii) such charge or security interest shall in each case provide that upon any assignment or transfer of the interest in the Restricted Notes or enforcement of such charge or security interest, any resulting assignment or transfer shall be in accordance with Condition 10(j); and
- (iii) the Noteholder promptly notifies the Registrar of any such charge or security interest and the secured party's identity and status by delivering to the Registrar a notification to such effect.

11. Agent, Paying Agents, Transfer Agents and Registrar

The names of the initial Agent, the other initial Paying Agents, the initial Registrar and the initial Transfer Agents and their initial specified offices are set out below.

The relevant Issuer and ZIC (where ZIC is not the relevant Issuer) are, with the prior written approval of the Trustee (such approval not to be unreasonably withheld), entitled to vary or terminate the appointment of any Paying Agent or Registrar or Transfer Agent and/or appoint additional or other Paying Agents, Registrars, Transfer Agents and/or approve any change in the specified office through which any Paying Agent, Registrar or Transfer Agent acts, provided that:

- (i) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent and a Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange;
- (ii) there will at all times be a Paying Agent with a specified office in a city approved by the Trustee in continental Europe;
- (iii) there will at all times be an Agent and a Registrar;
- (iv) there will at all times be a Transfer Agent having a specified office in a place approved by the Trustee; and
- (v) the relevant Issuer and ZIC (where ZIC is not the relevant Issuer) undertake that they will ensure that they maintain a Paying Agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to, such Directive.

In addition, the relevant Issuer and ZIC (where ZIC is not the relevant Issuer) shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the penultimate paragraph of Condition 5(b). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 13.

Notwithstanding the foregoing, the relevant Issuer will in respect of any Listed Swiss Franc Notes at all times maintain a Principal Paying Agent having a specified office in Switzerland and will at no time maintain a Paying Agent having a specified office outside Switzerland, unless permitted by applicable law.

12. Exchange of Talons

On and after the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Note to which it appertains) a further Talon, subject to the provisions of Condition 8. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Interest Payment Date (as the case may be) on which the final Coupon of the relative Coupon sheet matures.

13. Notices

All notices regarding the Bearer Notes shall be published (i) in a leading English language daily newspaper of general circulation in London, (ii) if and for so long as such Bearer Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require on the website of the Luxembourg Stock Exchange (www.bourse.lu) in Luxembourg, (iii) (in the case of Listed Swiss Franc Notes) in a leading newspaper of general circulation in Switzerland which is expected to be the *Feuille Officielle Suisse du Commerce* and in a daily newspaper in each of Zurich and Geneva. It is expected that such publication will be made (in the case of (i) above) in the Financial Times in London or any other daily newspaper in London approved by the Trustee or, if this is not possible, in another English language daily newspaper approved by the Trustee with general circulation in Europe and (in the case of (ii) above) the website of the Luxembourg Stock Exchange (www.bourse.lu). The relevant Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange, listing authority and/or quotation system by which the Notes are for the time being admitted to listing, trading and/or quotation. To the extent required by Luxembourg law, notices shall also be published in the *Memorial C, Recueil des Sociétés et Associations* ("**Memorial C**"). If and to the extent required by the Luxembourg law of 11 January 2008 relating to transparency obligations of issuers of securities implementing Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC, notices will also be published in accordance with the provisions of such law and implementing provisions. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the first date on which publication in all the required newspapers has been made. If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve. Receiptholders and Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the relative Noteholders in accordance with this Condition.

All notices to holders of Registered Notes will be valid if sent by first-class mail or (if posted to an overseas address) by air-mail to their registered addresses appearing on the Register. Any such notice shall be deemed to have been given on the fourth day after the day on which it is mailed. If and for so long as the relevant Registered Notes are listed on the Luxembourg Stock Exchange, and the rules of that exchange so require, all notices regarding Registered Notes shall be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Until such time as any definitive Notes are issued, there may, so long as the global Note(s) is or are held in its/their entirety on behalf of Euroclear and Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the holders of the Notes and in addition, for so long as any Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, a notice will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent and/or the Registrar via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and/or the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

14. Meetings of Noteholders, Modification and Waiver, Entitlement of Trustee, Substitution, Change and Indemnification of Trustee

(a) Single Noteholder

In relation to any Restricted Notes so long as there is only one Noteholder thereof, who shall certify to the Trustee that it is the sole Noteholder of the Notes and is not holding such Notes as a depository for, or nominee of, Euroclear, Clearstream, Luxembourg on or prior to any such amendment, waiver or variation being made (i) no amendment, waiver or variation of the Notes or the Trust Deed may be made without the prior written consent of such Noteholder and parties to the Trust Deed and (ii) the meeting, quorum and voting provisions of Conditions 14(b) shall not apply.

(b) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of such Notes, the relative Receipts, the relative Coupons or any relevant provisions of the Trust Deed. Such a meeting may be convened by the relevant Issuer, ZIC (where ZIC is not the relevant Issuer), the Trustee or at the request of Noteholders holding not less than 10 per cent in nominal amount of the Notes for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Trust Deed, the Notes, Receipts or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, Receipts or Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on the relevant Receiptholders and the relevant Couponholders. The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 100 per cent in nominal amount of Notes outstanding shall be as valid and effective as a duly passed Extraordinary Resolution. The provisions for convening meetings of Noteholders contained in the Trust Deed shall not apply to Listed Swiss Franc Notes.

The provisions of Articles 1157-1186 of the Swiss Code of Obligations will apply to all meetings of holders of Notes issued by ZIC.

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification (subject to certain exceptions as provided in the Trust Deed) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed, or may (in relation to the Events of Default set out in Condition 9(a)(ii), (iii), (v), (vi), (vii) and (x) (to the extent it applies to Conditions 9(a)(v), (vi) and (vii)) determine that any condition, event or act which, but for such determination, would constitute an Event of Default or Potential Event of Default (as defined in the Trust Deed), shall not be treated as such which in any such case, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or to any modification of any of these Terms and Conditions of the Senior Notes, Dated

Subordinated Notes and Undated Subordinated Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed which is of a formal, minor or technical nature or which is made to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders, Receiptholders and Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the relevant Issuer, ZIC (where ZIC is not the relevant Issuer), or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders except, in the case of the relevant Issuer, ZIC (where ZIC is not the relevant Issuer), to the extent provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

The Trust Deed contains provisions permitting the Trustee to agree, without the consent of the Noteholders, the Receiptholders or the Couponholders, to the substitution at any time or times of any other company in the place of the relevant Issuer as the principal debtor under the Trust Deed and the Notes, Receipts and Coupons issued by the relevant Issuer. Notwithstanding the above, by subscribing to or purchasing the Notes, the Noteholders expressly consent to the substitution of the relevant Issuer and expressly consent to the release of the Issuer from any and all obligations in respect of the Notes and are deemed to have expressly accepted such substitution. Such agreement shall be subject to the relevant provisions of the Trust Deed, including, except in the case of a substituted issuer domiciled in Luxembourg where appropriate, an irrevocable and unconditional guarantee by ZIC in terms substantially similar to those referred to in Condition 3(a) in respect of any Notes issued by the substituted issuer.

The Trust Deed contains general provisions for the retirement and removal of the Trustee and the appointment by the relevant Issuer of a substitute issuer which has previously been approved by the Trustee.

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.

The provisions of articles 86 to 94-8 of the Luxembourg Act dated 10 August 1915 on commercial companies, as amended, are excluded.

15. Enforcement

- (a) Subject to the provisions of Condition 9(b)(iii) in the case of Subordinated Notes, the Trustee may at any time, at its discretion and without notice, however, in the case of Restricted Notes, subject to Conditions 10(j) and 10(k), take such proceedings against the relevant Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of not less than 25 per cent in principal amount of the Notes then outstanding, and (ii) it shall have been indemnified and/or secured to its satisfaction.
- (b) No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the relevant Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing, in which case the Noteholder, Receiptholder or Couponholder shall have only such rights against the relevant Issuer or, as the case may be, the Guarantor as those which the Trustee is entitled to exercise. Any such proceedings brought by any Noteholder, Receiptholder or Couponholder shall be brought in the name of the Trustee, subject to such Noteholder, Receiptholder or Couponholder indemnifying the Trustee to its satisfaction.

16. Further Issues

The relevant Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

17. Governing Law and Submission to Jurisdiction

- (a) The Trust Deed (other than the provisions relating therein to the Senior ZIC Guarantee and the Subordinated ZIC Guarantee which shall be governed by, and construed in accordance with the laws of Switzerland), the Notes, (other than the provisions relating to Subordinated Notes of Condition 2 which shall be governed by, and construed in accordance with, the laws of the jurisdiction of incorporation of the relevant Issuer of the Subordinated Notes), the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) The relevant Issuer has agreed in the Trust Deed, for the exclusive benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Receipts and/or the Coupons and that accordingly any suit, action or proceedings (together referred to as “**Proceedings**”) arising out of or in connection with the Notes, the Receipts and the Coupons may be brought in such courts.
- (c) The relevant Issuer has irrevocably waived in the Trust Deed any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum.
- (d) Nothing contained in this Condition shall limit any right to take Proceedings against the relevant Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.
- (e) The relevant Issuer (other than ZF (UK)) has appointed Zurich Insurance Company Ltd, UK branch at its registered office for the time being as its agent for service of process in respect of any Proceedings in England and has undertaken in the Trust Deed that, in the event of Zurich Insurance Company Ltd, UK branch ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings in England.
- (f) Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.
- (g) In respect of Listed Swiss Franc Notes only, the relevant Issuer and the Trustee have agreed in the Trust Deed for the benefit of the Noteholders, the Receipts and the Couponholders to the additional jurisdiction of the Commercial Court of the Canton of Zurich, the place of jurisdiction being Zurich, with the right of appeal, where the law permits, to the Swiss Federal Court of Justice in Lausanne, the decision of which shall be final.
- (h) Each of the Senior ZIC Guarantee and the Subordinated ZIC Guarantee are governed by, and shall be construed in accordance with, the laws of Switzerland. Any legal action or proceedings in respect of each Senior ZIC Guarantee or each Subordinated ZIC Guarantee shall be brought exclusively in the Commercial Court of the Canton of Zurich, the place of jurisdiction being Zurich, with the right of appeal, where the law permits, to the Swiss Federal Court of Justice in Lausanne, the decision of which shall be final.

18. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Note or the Trust Deed under the United Kingdom Contracts (Rights of Third Parties) Act 1999.

Terms and Conditions of the Capital Notes

*The following, save for the paragraphs in italics, are the Terms and Conditions of the Capital Notes which will be endorsed on each Global Note and each Definitive Bearer Note or Individual Registered Note, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by ZIC and the relevant Dealer at the time of issue but, if not so permitted by the relevant stock exchange (if any) and agreed by ZIC and the relevant Dealer at the time of issue but, if so permitted and agreed, such Definitive Bearer Note or Individual Registered Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Capital Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, modify the following Terms and Conditions for the purpose of such Capital Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and each Definitive Bearer Note or Individual Registered Note. Reference should be made to “**Form of the Notes and the Capital Notes**” above for a description of the content of Final Terms which will include the definitions of certain terms used in the following Terms and Conditions or specify which of such terms are to apply in relation in the relevant Capital Notes.*

This Capital Note is one of a Series (as defined below) of Capital Notes issued by Zurich Insurance Company Ltd (“**ZIC**” or the “**Issuer**”), constituted by an amended and restated trust deed (as further modified and/or supplemented and/or restated from time to time, the “**Trust Deed**”) dated 11 June 2010 made between, *inter alios*, the Issuer, Zurich Financial Services Ltd (“**ZFS**”) and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include any successor as trustee). ZFS is a party to the Trust Deed for the purposes of giving certain undertakings expressed to be given by it in these Terms and Conditions.

References herein to the “**Capital Notes**” shall be references to the Capital Notes of this Series and shall mean:

- (i) in relation to any Capital Notes represented by a Global Note (which expression shall include any Temporary Global Note or Permanent Global Note or Permanent Global SIS Note or Reg. S Global Note, all as defined in the Trust Deed), units of the lowest Specified Denomination in the Specified Currency; and
- (ii) in relation to any Capital Notes in definitive bearer form (“**Definitive Bearer Notes**”) issued in exchange for an interest or interests in a Global Note in bearer form (“**Bearer Global Note**”), units of the lowest Specified Denomination in the Specified Currency; and
- (iii) in relation to Individual Registered Notes either issued as such or issued in exchange for a Reg. S Global Note, units of the lowest Specified Denomination in the Specified Currency.

The Final Terms for this Capital Note (or the relevant provisions thereof) are attached to or endorsed on this Capital Note and supplement these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, modify these Terms and Conditions for the purposes of this Capital Note. References to the “**applicable Final Terms**” are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Capital Note.

The Capital Notes, the Receipts (as defined below) and the Coupons (as defined below) are the subject of an amended and restated agency agreement (the “**Agency Agreement**” which expression shall, where the context permits, include any supplements or amendments thereto and any agency agreement relating to Listed Swiss Franc Capital Notes as referred to in Condition 5(e)) dated 11 June 2010 and made between, *inter alios*, the Issuer, Citibank, N.A. as issuing and principal paying agent and agent bank (the “**Agent**”, which expression shall include any successor agent specified in the applicable Final Terms), the other paying agents named therein (together with the Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents), the registrars named therein (each, a “**Registrar**”, which expression shall include any additional or successor registrar), the transfer agents named therein (the “**Transfer Agents**”, which expression shall include any additional or successor transfer agents) and the Trustee.

Definitive Bearer Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (“**Coupons**”) and, if indicated in the applicable Final Terms, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Definitive Bearer Notes repayable in instalments have receipts (“**Receipts**”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes do not have Receipts or Coupons attached on issue.

The Trustee acts for the benefit of the holders for the time being of the Capital Notes (the “**Noteholders**”) in accordance with the provisions of the Trust Deed.

As used herein, **“Tranche”** means Capital Notes which are identical in all respects (including as to listing) and **“Series”** means a Tranche of Capital Notes together with any further Tranche or Tranches of Capital Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed, the Agency Agreement and the applicable Final Terms are available for inspection during normal business hours at the principal London office for the time being of the Trustee (being at the date of the Trust Deed at Citicorp Trustee Company Limited, 14th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom) and are available at the specified office of each of the Agent, the other Paying Agents, the Registrar and the Transfer Agents save that, if this Capital Note is an unlisted Capital Note of any Series, the applicable Final Terms will only be available for inspection at the principal London office of the Agent by a Noteholder holding one or more unlisted Capital Notes of that Series and such Noteholder must produce evidence satisfactory to the Agent as to its holding of Capital Notes and as to identity. The Noteholders, the holders of the Receipts (the **“Receiptholders”**) and the holders of the Coupons (the **“Couponholders”**) are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of the Trust Deed and the applicable Final Terms, and are deemed to have notice of, and be bound by, the provisions of the Agency Agreement which are applicable to them.

Words and expressions defined in the Trust Deed, the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of any inconsistency between the Trust Deed or the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

1. Form, Denomination and Title

The Capital Notes are either in bearer form (**“Bearer Notes”**) or in registered form (**“Registered Notes”**) as specified in the applicable Final Terms and, in the case of Definitive Bearer Notes or Individual Registered Notes, serially numbered, in the Specified Currency and the Specified Denomination(s) specified in the applicable Final Terms. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination.

This Capital Note is a Fixed Rate Capital Note, a Floating Rate Capital Note, an Indexed Interest Capital Note, an Indexed Redemption Amount Capital Note, an Instalment Capital Note, a Dual Currency Capital Note each as defined in the applicable Final Terms, or a combination of any of the foregoing, depending upon the Interest/Payment Basis shown in the applicable Final Terms.

This Capital Note is a Listed Swiss Franc Capital Note if it is denominated or payable in Swiss francs and listed on the SIX Swiss Exchange and the applicable Final Terms so states.

Each Listed Swiss Franc Capital Note will be represented exclusively by a Permanent Global SIS Note which will be deposited with SIX SIS AG, Olten, Switzerland (**“SIS”**), or such other intermediary in Switzerland recognised for such purposes by the SIX Swiss Exchange (with respect to any such Permanent Global SIS Note, SIS or such other intermediary, the **“Intermediary”**) on or prior to the original issue date of such Capital Note. As a matter of Swiss law, once the Permanent Global SIS Note has been deposited with the Intermediary and entered into the accounts of one or more participants of the Intermediary, the Listed Swiss Franc Capital Notes represented thereby will constitute intermediated securities (*Bucheffekten*) within the meaning of the Swiss Federal Intermediated Securities Act (*Bucheffektengesetz*) (the **“Intermediated Securities”**). The Permanent Global SIS Note will be exchangeable for definitive Capital Notes in whole but not in part only if the Swiss paying agent should, after consultation with the Issuer, deem the printing of definitive Capital Notes to be necessary or useful, or if the presentation of definitive Capital Notes is required by Swiss or other applicable laws and regulations in connection with the enforcement of rights of Noteholders, or if the Swiss paying agent at any time at its discretion determines to have definitive Capital Notes issued; holders of Listed Swiss Franc Capital Notes will not have the right to effect or demand the exchange of the Permanent Global SIS Note representing such Listed Swiss Franc Capital Notes into, or delivery of, Notes in definitive or uncertificated form. If definitive Capital Notes are delivered, the relevant Permanent Global SIS Note will be immediately cancelled by the Swiss paying agent and the definitive Notes shall be delivered to the relevant holders against cancellation of the relevant Listed Swiss Franc Capital Notes in such holders' securities accounts. As a matter of Swiss law, a holder of an interest in the Permanent Global SIS Note retains a quotal co-ownership interest (*Miteigentumsanteil*) in the Permanent Global SIS Note to the extent of the Capital Notes represented by such Permanent Global SIS Note in which such holder has an interest; provided, however, that, for so long as the Permanent Global SIS Note remains deposited with the Intermediary (i.e., for so long as the Capital Notes represented thereby constitute Intermediated Securities), the co-ownership interest is suspended and the Capital Notes represented thereby may only be transferred by the entry of the transferred Capital Notes in a securities account of the transferee. For so long as Capital Notes constitute Intermediated Securities, as a matter of Swiss law, (i) the records of the Intermediary will determine the number of Capital Notes held through each participant of the Intermediary and (ii) the holders of such

Capital Notes will be the persons holding such Capital Notes in a securities account (*Effektenkonto*) that is in their name or, in the case of intermediaries (*Verwahrungsstellen*), the intermediaries (*Verwahrungsstellen*) holding such Notes for their own account in a securities account (*Effektenkonto*) that is in their name.

Each Tranche of Bearer Notes may be initially represented by a temporary Global Note without Receipts, Coupons or Talons (a **“Temporary Global Note”**) or, if so specified in the applicable Final Terms, a permanent Global Note (a **“Permanent Global Note”**), which will be delivered to the common depository for Euroclear Bank S.A./N.V. (**“Euroclear”**) and Clearstream Banking, *société anonyme*, Luxembourg (**“Clearstream, Luxembourg”**). On or after the end of the period that ends 40 days after completion of the distribution of each Tranche of Capital Notes, as certified by the relevant Dealer, in the case of a non syndicated issue, or the Lead Manager, in the case of a syndicated issue (the **“Distribution Compliance Period”**), the Temporary Global Note will be exchangeable upon a request as described therein either for interests in a Permanent Global Note without Receipts, Coupons or Talons or for Definitive Bearer Notes (as indicated in the applicable Final Terms and subject, in the case of Definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification to the effect that the beneficial owner of interests in such Temporary Global Note is not a US person or a person who has purchased for resale to any US person, as required by US Treasury regulations. Each Tranche of Bearer Notes may also be initially represented by a Permanent Global SIS Note (as defined in the Trust Deed). Unless otherwise specified in the applicable Final Terms, a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Notes with, where applicable, Receipts, Coupons and Talons attached (i) if a Dissolution Event (as defined in Condition 9) occurs in respect of any Capital Note, (ii) if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (weekends and public holidays excepted) or announces an intention to cease business permanently or in fact does so and no alternative clearing system satisfactory to the Trustee is available or (iii), if so specified in the applicable Final Terms, at the option of the Noteholder, provided that, in the case of an issue of Capital Notes with a minimum denomination of EUR 50,000 and smaller integral multiples thereof only exchange events (i) or (ii) above will apply.

With respect to a particular Series of Registered Notes, the Registered Notes of each Tranche sold outside the United States in reliance on Regulation S under the US Securities Act of 1933, as amended (the **“US Securities Act”**), will, unless otherwise specified in the applicable Final Terms, be represented by a permanent global Note in registered form, without Receipts, Coupons or Talons, (the **“Reg. S Global Note”**) which will be registered in the name of Citivic Nominees Limited as nominee for, and will be deposited with Citibank, N.A. as common depository for, and in respect of interests held through, Euroclear and Clearstream, Luxembourg. Capital Notes in individual registered form (**“Individual Registered Notes”**) issued in exchange for Reg. S Global Notes or otherwise sold or transferred in reliance on Regulation S under the US Securities Act, together with the Reg. S Global Notes, are referred to herein as **“Reg. S Notes”**. Prior to expiry of the period that ends 40 days after completion of the distribution of each Tranche of Capital Notes, as certified by the relevant Dealer, in the case of a non-syndicated issue, or by the Lead Manager, in the case of a syndicated issue, interests in a Reg. S Global Note may be held only through Euroclear or Clearstream, Luxembourg.

Individual Registered Notes from the date of issue may, if specified in the applicable Final Terms, be issued in reliance on Regulation S under the US Securities Act.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon the registration of transfers in accordance with the Agency Agreement and the Trust Deed. The Issuer, the Trustee, the Agent, any Paying Agent, the Registrar, and any Transfer Agent may (subject to applicable laws or as otherwise ordered by a court of competent jurisdiction or an official authority) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof for all purposes (whether or not it is overdue and notwithstanding any notice of ownership, trust or any interest in it, any writing on it or on the related Individual Registered Note or notice of any previous loss or theft of it) and no person will be liable for so treating the holder.

No person shall have any right to enforce any term or condition of this Capital Note or the Trust Deed under the United Kingdom Contracts (Rights of Third Parties) Act 1999.

Capital Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg.

References in these Terms and Conditions to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system (including SIS) approved by the Issuer, the Trustee and the Agent and specified in the applicable Final Terms.

2. Status of the Capital Notes

(a) Type A Capital Notes

This Condition 2(a) is only applicable to Capital Notes which are specified in the applicable Final Terms as being Type A Capital Notes (“**Type A Capital Notes**”).

The Capital Notes and the relative Receipts and Coupons constitute, save as otherwise specified in the applicable Final Terms, direct, subordinated and unsecured obligations of the Issuer and rank *pari passu*, without any preference, among themselves. The claims of the holders of Capital Notes and relative Receipts and Coupons rank, save as otherwise specified in the applicable Final Terms, on a voluntary or involuntary insolvency, winding-up, liquidation, dissolution or other similar proceedings of or against the Issuer:

- (i) after the claims of any Senior Creditors (as defined below);
- (ii) *pari passu* with any Subordinated Notes (as defined in the Trust Deed) of the Issuer, any Subordinated ZIC Guarantee (as defined in the Trust Deed) and any other subordinated obligations of the Issuer which whether now or in the future rank or are expressed to rank *pari passu* with the claims of the Noteholders (“**Parity Obligations**”, and “**Parity Obligation**” shall be construed accordingly); and
- (iii) prior to the claims of the holders of any Type B Capital Notes (as defined in the Trust Deed) and of all classes of issued shares in the share capital of the Issuer.

Save as otherwise specified in the applicable Final Terms, in the event of a voluntary or involuntary insolvency, winding-up, liquidation, dissolution or other similar proceedings of or against the Issuer, there shall be payable in such voluntary or involuntary insolvency, winding-up, liquidation, dissolution or other similar proceedings on each Capital Note, subject to the subordination provisions set out in this Condition 2(a), an amount equal to the principal amount of such Capital Note together with, unless otherwise specified in the applicable Final Terms, unpaid Deferred Interest (as defined in Condition 3(c)) (if applicable) and interest which has accrued up to, but excluding, the date of repayment.

As used herein, save as otherwise specified in the applicable Final Terms, “**Senior Creditors**” means (i) holders of Senior Obligations (as defined in the Trust Deed) and (ii) creditors of the Issuer in respect of actual or contingent obligations (including claims of holders of insurance policies issued by the Issuer), whether outstanding at the Issue Date or subsequently incurred, other than any obligation as to which, in the instrument creating or evidencing the obligation or pursuant to which the obligation is outstanding, it is expressly provided that such obligation is *pari passu* with, or junior to, the Type A Capital Notes and/or any Parity Obligations.

For the avoidance of doubt, the obligations of ZIC in relation to Type A Capital Notes will, unless the applicable Final Terms provide otherwise, rank on a winding-up, liquidation, dissolution or other similar proceedings:

- (a) *pari passu with the obligations of ZIC in respect of its 425m 7.5% Subordinated Notes due 2039 and in respect of its guarantee of the Group’s 500m 5.75% Subordinated Notes due 2023, the 500m 4.5% Subordinated Notes due 2025, the £450m 6.625% Undated Subordinated Notes and any future Subordinated Notes issued by ZIC; and*
- (b) *senior to the obligations of ZIC in respect of its subordinated support agreements entered into in connection with the enhanced capital advantaged preferred securities (ECAPS) issued by ZFS Finance (USA) Trust I, ZFS Finance (USA) Trust II and ZFS Finance (USA) Trust III and the Trust Preferred Securities issued by ZFS Finance (USA) Trust IV and ZFS Finance (USA) Trust V and its obligations under the 143m 12% Capital Notes and any future Type B Capital Notes.*

(b) Type B Capital Notes

This Condition 2(b) is only applicable to Capital Notes which are specified in the applicable Final Terms as being Type B Capital Notes (“**Type B Capital Notes**”).

The Capital Notes and the relative Receipts and Coupons constitute, save as otherwise specified in the applicable Final Terms, direct, subordinated and unsecured obligations of the Issuer and rank *pari passu*, without any preference, among themselves. The claims of the holders of Capital Notes and relative Receipts and Coupons rank, save as otherwise specified in the applicable Final Terms, on a voluntary or involuntary insolvency, winding-up, liquidation, dissolution or other similar proceedings of or against the Issuer:

- (i) after the claims of any Senior Creditors (as defined below);

- (ii) *pari passu* with any subordinated obligations of the Issuer which whether now or in the future rank or are expressed to rank *pari passu* with the claims of the Noteholders (“**Parity Obligations**”, and “**Parity Obligation**” shall be construed accordingly); and
- (iii) prior to the claims of the holders of all classes of issued shares in the share capital of the Issuer.

For the avoidance of doubt, the Issuer’s obligations under the subordinated support agreements entered into in connection with the enhanced capital advantaged preferred securities (ECAPS) issued by ZFS Finance (USA) Trust I, ZFS Finance (USA) Trust II and ZFS Finance (USA) Trust III and the Trust Preferred Securities issued by ZFS Finance (USA) Trust IV and ZFS Finance (USA) Trust V and the Issuer’s obligations under the 143 m 12% Capital Notes each constitute Parity Obligations.

Save as otherwise specified in the applicable Final Terms, in the event of a voluntary or involuntary insolvency, winding-up, liquidation, dissolution or other similar proceedings of or against the Issuer, there shall be payable in such voluntary or involuntary insolvency, winding-up, liquidation, dissolution or other similar proceedings on each Capital Note, subject to the subordination provisions set out in this Condition 2(b), an amount equal to the principal amount of such Capital Note together with, unless otherwise specified in the applicable Final Terms, unpaid Deferred Interest (as defined in Condition 3(c)) (if applicable) and interest which has accrued up to, but excluding, the date of repayment.

As used herein, save as otherwise specified in the applicable Final Terms, “**Senior Creditors**” means (i) holders of Senior Obligations, Subordinated Obligations and Type A Capital Notes (each as defined in the Trust Deed) and (ii) creditors of the Issuer in respect of a ZIC Subordinated Guarantee (as defined in the Trust Deed) or in respect of other actual or contingent obligations (including claims of holders of insurance policies issued by the Issuer), whether outstanding at the Issue Date or subsequently incurred, other than any obligation as to which, in the instrument creating or evidencing the obligation or pursuant to which the obligation is outstanding, it is expressly provided that such obligation is *pari passu* with, or junior to, the Capital Notes and/or any Parity Obligations.

(c) Capital Notes

This Condition 2(c) is applicable to Type A Capital Notes and Type B Capital Notes.

Subject to applicable law, neither the Trustee nor any Noteholder may, save as otherwise specified in the applicable Final Terms, exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Capital Notes against any claim that the Issuer may have against the Noteholder and each such Noteholder shall, by virtue of being the Noteholder of any of the Capital Notes, be deemed to have waived all such rights of set-off.

No security (save as otherwise specified in the applicable Final Terms) of whatever kind is, or will at any time be, provided by the Issuer or any other person securing the rights of the Noteholders under the Capital Notes. No agreement may defeat the subordination pursuant to the provisions set out in this Condition 2 or shorten any applicable notice period in respect of the Capital Notes as provided in these Conditions. If the Capital Notes are redeemed in breach of Condition 6(a) (if applicable), (b), (c) or (d), the amounts so paid to any Noteholder must be repaid to the Issuer by such Noteholder irrespective of any agreement to the contrary, unless (x) the Issuer has been dissolved or (y) such amounts have been replaced by regulatory capital qualifying for the same regulatory (sub-) category or equivalent thereof or (z) if the FINMA or any Successor Authority (each as defined below) applicable at the time has given its prior written consent (if necessary) to the redemption.

The subordination provisions of this Condition 2 which are governed by, and shall be construed in accordance with, the laws of Switzerland, are irrevocable.

3. Deferral or Cancellation of Interest

(a) Solvency Event

Condition 3(a) shall only apply in respect of a Capital Note where the applicable Final Terms specify that Solvency Event is applicable.

If Solvency Event is specified in the applicable Final Terms as being applicable and a Solvency Event has occurred and is continuing as at the relevant Determination Date and the Solvency Deferral Condition is satisfied as at the relevant Interest Payment Date, then, in relation to any Interest Payment which is otherwise scheduled to be paid on an Interest Payment Date the Issuer shall (if the applicable Final Terms specify the Capital Note as being Cumulative in relation to a Solvency Event) defer, or (if the applicable Final

Terms specify the Capital Note as being Non-Cumulative in relation to a Solvency Event) cancel such Interest Payment, and shall defer or, as applicable, cancel the relevant Solvency Shortfall if, were the Issuer to make payment of the relevant Interest Payment, a Solvency Event would as at the date of such payment occur, in any such case except that the Issuer will not be required to defer or, as applicable, cancel such Interest Payment or Solvency Shortfall, as the case may be, if the FINMA or any Successor Authority applicable at the time has given its consent to such payment.

Noteholders shall have no entitlement to, or claim for, any Interest Payment or Solvency Shortfall cancelled pursuant to this Condition 3(a) and, for the avoidance of doubt, such sum shall not constitute Deferred Interest (as defined below) hereunder and such cancellation shall not constitute a Dissolution Event by the Issuer or any other breach or default under the Capital Notes or for any other purpose.

Any Interest Payment or Solvency Shortfall deferred pursuant to this Condition 3(a) is referred to herein as **“Solvency Deferred Interest”**.

The Issuer shall give notice of any such deferral or cancellation to the Trustee (together with the certificate of the occurrence of a Solvency Event and as to the quantum of any Solvency Shortfall referred to below), the Agent and to the Noteholders in accordance with Condition 13 not less than seven days prior to the relevant Interest Payment Date.

A certificate as to the occurrence of a Solvency Event, as to the satisfaction of the Solvency Deferral Condition and as to the quantum of any Solvency Shortfall, signed by two Directors of the Issuer or ZFS, shall, in the absence of manifest error be treated and accepted by the Issuer, the Noteholders, the Trustee, the Receiptholders, the Couponholders and all other interested parties as correct and sufficient evidence thereof. The Trustee shall be entitled to rely upon such certification absolutely without liability to any person.

As used herein:

“Applicable Regulations” means, with respect to the Relevant Entity at any time, the regulatory capital requirements applicable to such entity and/or its group at such time including, but not limited to, Swiss insurance regulatory law (for group solvency or single solvency and/or financial conglomerate purposes, as applicable) and/or applicable generally recognised administrative practice, if any, of FINMA or any Successor Authority.

“Assets” means, where ZIC is specified in the relevant Final Terms as being the Relevant Entity, the Issuer’s consolidated total assets and, where ZFS is specified in the relevant Final Terms as being the Relevant Entity, ZFS’s consolidated total assets, each as shown in its latest annual audited balance sheet, but adjusted for all subsequent events, as reasonably determined by the Relevant Entity, or if the Relevant Entity is being liquidated, its liquidator.

“Determination Date” means, in respect of an Interest Payment Date, the 20th business day in Zurich preceding such date.

“FINMA” means the Swiss Financial Market Supervisory Authority in Switzerland (FINMA) which the former Federal Office of Private Insurance (FOPI) was merged into as of 1 January 2009.

“Interest Payment” means, with respect to an Interest Payment Date, the interest scheduled to be paid on such Interest Payment Date.

“Liabilities” means, where ZIC is specified in the applicable Final Terms as being the Relevant Entity, ZIC’s consolidated total liabilities and, where ZFS is specified in the applicable Final Terms as being the Relevant Entity, ZFS’s consolidated total liabilities, each as shown in its latest annual audited balance sheet, but adjusted for all subsequent events, as reasonably determined by the Relevant Entity, or if the Relevant Entity is being liquidated, its liquidator.

“Relevant Entity” means ZIC and/or ZFS, as specified in the applicable Final Terms.

A **“Restricted Payments Provision”** in any obligation is a provision in such obligation or any related transaction agreements providing for complete or partial prohibitions as to payment of distributions (or similar payments) on other securities that rank *pari passu* with, or junior to, such obligations for so long as distributions (or similar payments) on such obligations remain unpaid.

The **“Solvency Deferral Condition”** will be satisfied with respect to any Interest Payment Date if a Solvency Event has occurred prior to such Interest Payment Date and is continuing as at the relevant Determination Date and in the period from and including the date of the occurrence of such Solvency Event to and including such Interest Payment Date:

- (i) no dividend has been declared or paid on any class of share capital of ZFS; and
- (ii) (at any time the existence of this requirement (ii) does not cause a Regulatory Event (as defined below)) no payment of interest (or equivalent) has been made on any securities of the Issuer which rank, or are expressed to rank, junior to or *pari passu* with the applicable Capital Notes (unless such payment was compulsory on such securities or required due to the repayment of such securities).

A “**Solvency Event**” shall be deemed to have occurred as at any date if as at such date:

- (i) the Relevant Entity does not at such date have appropriate funds to cover the required minimum solvency margin or meet any other required level of own funds regulatory capital (or a comparable term in case of a change in Applicable Regulations) in accordance with Applicable Regulations and a deferral or, as applicable, cancellation of interest is required under the Applicable Regulations; or
- (ii) the Relevant Entity is unable to pay its debts owed to its Senior Creditors (as defined in Condition 2(a) or 2(b), as the case may be, if ZIC is specified as Relevant Entity in the applicable Final Terms, and as defined below if ZFS is specified as Relevant Entity in the applicable Final Terms) as they fall due; or
- (iii) the Relevant Entity’s Assets do not exceed its Liabilities (each as defined above) (other than liabilities to persons who are not Senior Creditors); or
- (iv) FINMA or a Successor Authority has given (and not withdrawn) notice to the Relevant Entity that it has determined, in view of the financial and/or capital position of the Relevant Entity, that in accordance with Applicable Regulations at such time, the Issuer must take specified action in relation to payments on the Capital Notes.

If ZFS is specified as Relevant Entity in the Final Terms, “**Senior Creditors**” means (i) all unsubordinated creditors of ZFS; and (ii) all creditors of ZFS whose claims are subordinated by operation of law or pursuant to their terms, to the claims of other unsubordinated creditors of that entity but not further or otherwise.

“**Solvency Shortfall**” means the portion of interest that would cause a Solvency Event to occur or be continuing.

“**Successor Authority**” means any domestic or foreign successor to FINMA or otherwise that has primary supervisory authority over the Issuer and/or the Zurich Financial Services Group.

If Solvency Event is specified in the applicable Final Terms as being not applicable, then solely in respect of Interest Payments and without prejudice to Condition 2, such Capital Notes rank senior to any existing or future obligations of the Issuer (“**other obligations**”) that would otherwise have ranked *pari passu* with the Capital Notes, if and to the extent payment of such Interest Payments would otherwise be prohibited by any Restricted Payments Provision in such other obligations as a result of solvency event provisions with respect to such other obligations.

If payment of an Interest Payment is deferred or, as applicable, cancelled pursuant to Condition 3(a), the Issuer shall not have any obligation to pay such Interest Payment on the relevant Interest Payment Date and the failure to pay such Interest Payment shall not constitute a Dissolution Event by the Issuer or any other breach or default under the Capital Notes or for any other purpose.

(b) Mandatory Deferral or Cancellation

Condition 3(b) shall only apply in respect of a Capital Note where the applicable Final Terms specify that Trigger Event is applicable.

If Trigger Event is specified in the applicable Final Terms as being applicable and a Trigger Event has occurred and is continuing as at the relevant Determination Date, then, in relation to any Interest Payment which is otherwise scheduled to be paid on an Interest Payment Date, the Issuer shall (if the applicable Final Terms specify the Capital Note as being Cumulative in relation to the Trigger Event) defer, or (if the applicable Final Terms specify the Capital Note as being Non-Cumulative in relation to the Trigger Event) cancel the amount (the “**Trigger Event Shortfall**”) by which such Interest Payment exceeds the New Capital Amount per Capital Note outstanding at such time. The Issuer shall give notice of such deferral or, as applicable, cancellation and of the relevant Trigger Event Shortfall to the Trustee (together with the certificate referred to below), the Agent and to the Noteholders in accordance with Condition 13 not less than seven days prior to the relevant Interest Payment Date.

Noteholders shall have no entitlement to, or claim for, any Trigger Event Shortfall cancelled pursuant to this Condition 3(b) and, for the avoidance of doubt, such sum shall not constitute Deferred Interest hereunder and such cancellation shall not constitute a Dissolution Event by the Issuer or any other breach or default under the Capital Notes or for any other purpose.

Any Trigger Event Shortfall deferred pursuant to this Condition 3(b) is referred to herein as **“Mandatorily Deferred Interest”** and the Issuer shall not have any obligation (except to the extent the Issuer and ZFS are obliged, as described below, to use their commercially reasonable efforts to utilise the APM) to pay such Trigger Event Shortfall on the relevant Interest Payment Date and the failure to pay such Trigger Event Shortfall shall not constitute a Dissolution Event by the Issuer or any other breach or default under the Capital Notes or for any other purpose.

As used herein:

A **“Trigger Event”** shall be deemed to have occurred at any Determination Date if each of the following has occurred:

- (i) ZFS’s Trailing Four Quarters Consolidated Net Income Amount is not a positive amount for the four fiscal quarter periods ending on the last day of ZFS’s fiscal quarter that is two fiscal quarters prior to the most recently completed fiscal quarter before that Determination Date; and
- (ii) ZFS’s Adjusted Consolidated Shareholders’ Equity Amount as at the end of ZFS’s fiscal quarter that is two fiscal quarters prior to the most recently completed fiscal quarter before that Determination Date has declined by 10 per cent or more as compared to ZFS’s Adjusted Consolidated Shareholders’ Equity Amount at the end of the tenth fiscal quarter preceding ZFS’s most recently completed fiscal quarter before that Determination Date; and
- (iii) ZFS’s Adjusted Capital Amount as at the end of ZFS’s most recently completed fiscal quarter before that Determination Date has declined by 10 per cent or more as compared to ZFS’s Adjusted Consolidated Shareholders’ Equity Amount at the end of the tenth fiscal quarter preceding ZFS’s most recently completed fiscal quarter before that Determination Date.

A certificate as to the occurrence or continuation of a Trigger Event and as to the quantum of the relevant Trigger Event Shortfall, signed by two Directors of the Issuer or ZFS and which sets out the Issuer’s or ZFS’s determinations of the Trailing Four Quarters Consolidated Net Income Amount, the Adjusted Consolidated Shareholders’ Equity Amount and the Adjusted Capital Amount as at the dates aforesaid and that as a result, a Trigger Event shall have occurred shall, in the absence of manifest error, be treated and accepted by the Issuer, ZFS, the Trustee, the Noteholders, the Receipholders, the Couponholders and all other interested parties as correct and sufficient evidence thereof and the Trustee shall be entitled to rely on such certification absolutely without liability to any person.

“Adjusted Capital Amount” means the Adjusted Consolidated Shareholders’ Equity Amount plus Qualifying Mandatory Convertibles.

“Adjusted Consolidated Shareholders’ Equity Amount” means, as at any quarter end and subject to the adjustments referred to below, ZFS’s total consolidated shareholders’ equity excluding preferred securities, net unrealised gains (or losses) on investments and cumulative translation adjustments, as reflected on ZFS’s consolidated IFRS balance sheets as at such quarter end.

“IFRS” means, at any date and for any period, International Financial Reporting Standards as applied to, and reflected in, ZFS’s consolidated financial statements as at the relevant dates and for the relevant periods.

“New Capital Amount” means, at any date, the net proceeds received by the Issuer or ZFS from new issuances (whether in one or more public offerings or private placements) and/or sales of ordinary shares, Qualifying Warrants or Qualifying Mandatory Convertibles during the period commencing on the 180th day prior to such date and designated by the Issuer or ZFS at or before the time of issuance as available to pay Interest Payments on the Capital Notes.

“Qualifying Mandatory Convertible” means, securities of ZFS or a subsidiary thereof (other than ordinary shares of ZFS) with (i) no prepayment obligation in respect of such securities on the part of the issuer thereof, whether at the election of the holders or otherwise, and (ii) a requirement that such securities convert into ordinary shares of ZFS within three years from the date of their issuance at a conversion ratio within a range established at the time of issuance of such securities.

“Qualifying Warrants” means any net share settled warrants to purchase ordinary shares of ZFS that (i) have an exercise price greater than the stock market price of a ZFS ordinary share as at the issue date thereof and (ii) ZFS is not entitled to redeem for cash and the holders of which are not entitled to require ZFS to purchase for cash in any circumstances.

“Trailing Four Quarters Consolidated Net Income Amount” means, for any fiscal quarter and subject to the adjustments referred to below, the sum of ZFS’s consolidated net income for the four fiscal quarters ending as at the last day of such fiscal quarter.

If the conditions for a Trigger Event are satisfied for any Determination Date, the deferral or, as applicable, cancellation of interest will continue until that Trigger Event has been deemed cured in the manner described below on a subsequent Determination Date. In addition, if additional Trigger Events are triggered on one or more subsequent Determination Dates before the initial Trigger Event is deemed cured (as described below), the deferral or, as applicable, cancellation of interest on the Capital Notes will continue until each such subsequent Trigger Event has been deemed cured (as described below). After one or more Trigger Events have occurred or are continuing, the Issuer may only begin to pay interest on the Capital Notes on any Interest Payment Date if on the relevant Determination Date (i) no new Trigger Event has occurred and (ii) all of the previous Trigger Events have been deemed cured (as described below).

A Trigger Event that was triggered on a prior Determination Date (the **“Previous Determination Date”**) will be deemed to be cured as at a later Determination Date if ZFS’s Adjusted Capital Amount as at its most recently completed fiscal quarter before that later Determination Date has increased, or has declined by less than 10 per cent, as compared to ZFS’s Adjusted Consolidated Shareholders’ Equity Amount as at the end of the originally specified benchmark fiscal quarter for that Previous Determination Date. All financial terms used in this Condition 3(b) will be determined in accordance with IFRS. If because of a change in IFRS that results in a change in accounting principles or a restatement, ZFS’s Adjusted Consolidated Shareholders’ Equity Amount as at a fiscal quarter end is higher or lower than it would have been absent such change, then for the purpose of the calculation described in the preceding sentence, ZFS’s Adjusted Consolidated Shareholders’ Equity Amount will be calculated on a pro forma basis as if such change had not occurred. Upon satisfaction of the conditions described in this paragraph, the Issuer will provide a certificate, signed by two Directors of the Issuer, certifying that such conditions have been met and the Trigger Event has been deemed to be cured and the Trustee shall be entitled to rely on such certification absolutely without liability to any person.

If Trigger Event is specified in the applicable Final Terms as being not applicable, then solely in respect of Interest Payments and without prejudice to Condition 2, such Capital Notes rank senior to any existing or future obligations of the Issuer (**“other obligations”**) that would otherwise have ranked *pari passu* with the Capital Notes, if and to the extent payment of such Interest Payments would otherwise be prohibited by any Restricted Payments Provision in such other obligations as a result of a Trigger Event Occurrence (as defined below) with respect to such other obligations.

A **“Trigger Event Occurrence”** with respect to any obligation is the mandatory deferral or cancellation of the payment of any distributions (or similar payments) on that obligation as a result of any event or condition specified in the provisions of such obligation or any related transaction agreements, including the suspension or the cancellation of the payment of any distributions (or similar payments) from any source other than a specific source of funds, but excluding any such mandatory deferral or cancellation purely as a result of solvency event provisions analogous to those in Condition 3(a).

If the applicable Final Terms provide that Commercially Reasonable Efforts is applicable, from the occurrence of a Trigger Event, the Issuer and ZFS will use their respective commercially reasonable efforts to operate the APM to satisfy the relevant Mandatorily Deferred Interest. If the applicable Final Terms provide that Intention Statement is applicable, the Issuer and ZFS intend to operate the APM to satisfy the relevant Mandatorily Deferred Interest within 30 days from the Interest Payment Date in relation to which a Trigger Event is occurring.

The foregoing paragraph is without prejudice to the obligations of the Issuer and ZFS under Condition 3(e).

If the applicable Final Terms provide that Commercially Reasonable Efforts is applicable, from the occurrence of a Trigger Event and the Issuer and ZFS becoming obliged to use their commercially reasonable efforts to satisfy Mandatorily Deferred Interest by way of the APM, then solely in respect of such Interest Payments and without prejudice to Condition 2, the Capital Notes rank senior to any existing or future obligations of the Issuer (**“other obligations”**) that otherwise rank *pari passu* with the Capital Notes, but where interest on such other obligations is not at that time subject to similar provisions to use commercially reasonable efforts.

(c) Optional Deferral or Cancellation

Condition 3(c) shall only apply in respect of a Capital Note where the applicable Final Terms specify that Optional Non-Payment is applicable.

In addition to the obligation of the Issuer to defer or, as applicable, cancel interest in certain circumstances set out in, and in accordance with, Conditions 3(a) and 3(b), the Issuer may elect (if the applicable Final Terms specify the Capital Note as being Cumulative in relation to Optional Non-Payment) to defer, or (if the applicable Final Terms specify the Capital Note as being Non-Cumulative in relation to Optional Non-Payment) to cancel in whole or in part any Interest Payment which is otherwise scheduled to be paid on an Optional Interest Payment Date (as defined below) by giving written notice of such election to the Trustee, the Agent and to the Noteholders in accordance with Condition 13 not less than seven days prior to the relevant Interest Payment Date. If so specified in the applicable Final Terms, notwithstanding the other provisions of this Condition 3(c) but without prejudice to the provisions of Conditions 3(a) and 3(b), if as at any Optional Interest Payment Date the FINMA or any Successor Authority no longer accords any regulatory capital credit to the Capital Notes under Applicable Regulations (as defined below) the Issuer will only be allowed to exercise its option under this Condition 3(c) to defer payments of interest on the Capital Notes on such Optional Interest Payment Date for up to five years (a **“Fixed Term Deferred Interest Payment”**), and the Issuer will only be allowed to exercise its option under this Condition 3(c) to cancel payments of interest on the Capital Notes on such Optional Interest Payment Date and each Optional Interest Payment Date falling in the period of five years following such first Optional Interest Payment Date, but not thereafter. Any Fixed Term Deferred Interest Payment shall fall due on the relevant APM Deferred Settlement Date, or, as applicable, Cash Deferred Settlement Date or, if earlier, the fifth anniversary of the Optional Interest Payment Date on which such payment was deferred.

Noteholders shall have no entitlement to, or claim for, any Interest Payment or, as appropriate, any part thereof cancelled pursuant to this Condition 3(c) and, for the avoidance of doubt, such sum shall not constitute Deferred Interest hereunder and such cancellation shall not constitute a Dissolution Event by the Issuer or any other breach or default under the Capital Notes or for any other purpose.

Any Interest Payment, or, as appropriate, any part thereof, deferred pursuant to this Condition 3(c), is referred to herein as **“Optionally Deferred Interest”** and, together with Solvency Deferred Interest and Mandatorily Deferred Interest, as **“Deferred Interest”**.

If payment of an Interest Payment, or as appropriate, any part thereof, is deferred pursuant to Condition 3(c), the Issuer shall not have any obligation to pay such Interest Payment, or as appropriate, part thereof on the relevant Optional Interest Payment Date and the failure to pay such Interest Payment, or as appropriate, part thereof shall not constitute a Dissolution Event by the Issuer or any other breach or default under the Capital Notes or for any other purpose.

As used above, **“Optional Interest Payment Date”** means any Interest Payment Date in respect of which during the six month period ending thereon (i) no dividend has been declared as paid on any class of share capital of ZFS; and (ii) (provided at the relevant time the existence of this requirement (ii) does not cause a Regulatory Event) no interest payments have been made on any securities issued (or guaranteed by) the Issuer the claims in respect of which rank junior to or *pari passu* with, the claims of Noteholders (unless such payment was compulsory under the terms of such securities or required due to the repayment of such securities).

(d) Payment Restrictions following Deferral or Cancellation

In the case of a Capital Note where the applicable Final Terms specify that this Condition 3(d) applies but not otherwise, the Issuer and ZFS agree that if an Interest Payment has not been paid in full for an Interest Period by reason of Condition 3(a), (b) or (c), then, subject as provided below, in the case of a Capital Note where the applicable Final Terms provide that it is Cumulative with respect to events specified under Conditions 3(a), (b) or (c), for so long as any such Deferred Interest remains outstanding and, in the case of a Capital Note where the applicable Final Terms provide that it is Non-Cumulative with respect to events specified under Conditions 3(a), (b) or (c), until the next payment of an Interest Payment in full, and in each case subject as provided below, (v) ZFS will not, nor will it permit any of its subsidiaries to, make any discretionary payment of principal, interest or premium, if any, on or repay, purchase or redeem any ZFS Subordinated Debt (as defined below); (w) ZFS will not, nor will it permit any of its subsidiaries to, make any discretionary guarantee payments with respect to any of its guarantees of the securities of any of its subsidiaries if such guarantee ranks *pari passu* with, or junior to, any ZFS Subordinated Debt; (x) ZFS will not, and will not permit any of its subsidiaries to, redeem, purchase or acquire, or make a liquidation payment with respect to, any of ZFS's ordinary shares and any of its other capital stock that may then exist; (y) the Issuer will not, nor will it permit any of its subsidiaries to redeem any of its securities that rank *pari passu* with, or junior to, the Capital Notes; and (z) the Issuer will not, nor will it permit any of its subsidiaries to, make any discretionary guarantee payments with respect to any of its guarantees of the securities of any of its subsidiaries if such guarantee ranks *pari passu* with, or junior to, the Capital Notes.

As used herein **“ZFS Subordinated Debt”** means obligations of ZFS which rank or are expressed to rank junior to any senior, unsubordinated obligations of ZFS.

The restrictions set out above in this Condition 3(d) shall not apply to:

- (i) repurchases, redemptions or other acquisitions of ZFS's ordinary shares in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of one or more employees, officers, directors or consultants, in connection with a dividend reinvestment or shareholder stock purchase plan or in connection with the issuance of ZFS's ordinary shares (or securities convertible into or exercisable for ZFS's ordinary shares) as consideration in an acquisition transaction entered into prior to the applicable deferral period;
- (ii) as a result of any exchange or conversion of any class or series of ZFS's ordinary shares (or any capital stock of any of its subsidiaries) for any class or series of common stock or of any class or series of its indebtedness (or for the indebtedness of any of its subsidiaries);
- (iii) the purchase of fractional interests in ZFS's ordinary shares, pursuant to the conversion or exchange provisions of such ZFS ordinary shares, or the security being converted or exchanged;
- (iv) any declaration of a dividend in connection with any shareholders' rights plan, or the issuance of rights, stock or other property under any shareholders' rights plan, or the redemption or repurchase of rights pursuant thereto;
- (v) any dividend or distribution in the form of stock, warrants, options or other rights where the dividend stock or the stock issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks *pari passu* with or junior to such stock; or
- (vi) payments of interest on any Parity Obligations and the Capital Notes rateably and in proportion to the respective amount of (aa) accrued and unpaid interest on such Parity Obligations, on the one hand, and (bb) if applicable, Deferred Interest on the Capital Notes, on the other hand.

Further, the restrictions in (y) and (z) above shall not apply in the cases of (i) a Trigger Event in relation to Capital Notes where the securities otherwise ranking *pari passu* with the Capital Notes do not themselves contain a similar mandatory deferral or cancellation feature, (ii) where Intention Statement is applicable and the securities otherwise ranking *pari passu* with the Capital Notes themselves contain a Commercially Reasonable Efforts provision, (iii) a Solvency Event in relation to Capital Notes where the securities otherwise ranking *pari passu* with the Capital Notes do not themselves contain a substantially similar solvency event, (iv) interest becoming mandatorily due on such securities due to a provision analogous to provisions in Condition 3(e) below or otherwise where the terms of such securities do not permit the deferral of interest, or (v) at maturity of such securities. In the event of any of (i) to (iv) of this paragraph being applicable, the Issuer and ZFS will each provide a certificate signed by two Directors to the Trustee, the Agent and the Noteholders certifying which of (i) to (iv) above applies and that, as a result, the restrictions in (y) and (z) shall not apply which the Trustee shall rely on absolutely without liability to any person.

In addition, in the case of a Capital Note where the applicable Final Terms provide that it is Cumulative with respect to any events described under Conditions 3(a), (b) or (c), if the Issuer has failed to pay interest in full on the Capital Notes for one year, the limitation on the ability of ZFS or any of its subsidiaries to redeem or purchase Qualifying APM Securities (as defined below) or any of its securities which rank *pari passu* with, or junior to, the most senior Qualifying APM Securities and the proceeds of which were used to settle Deferred Interest during the relevant deferral period will continue until the first anniversary of the date on which all Deferred Interest has been paid except in the case of repayment at maturity of securities ranking junior to, or *pari passu* with, any Qualifying APM Securities.

For the avoidance of doubt, Deferred Interest does not itself bear interest.

(e) Settlement of Deferred Interest

If the applicable Final Terms specify that Cash Settlement is applicable, the Issuer may (subject as provided below) elect at any time upon the expiry of not less than seven days' written notice to such effect given by the Issuer to the Trustee, the Agent and, in accordance with Condition 13, the Noteholders, to pay in cash in whole or in part any Deferred Interest. However, any outstanding Deferred Interest will (subject as provided below) become immediately due and payable in cash in full (or in the case where limb (iv) of the definition of APM Deferred Settlement Date is specified as applying as part of the definition of Cash Deferred Settlement Date, on a proportionate basis) upon the Cash Deferred Settlement Date (as defined below).

Notwithstanding the foregoing, Deferred Interest shall only be due and payable if at the relevant time the prior written approval of FINMA or any Successor Authority to such payment has been given (if such approval is required under Applicable Regulations at the

relevant time). If on the Cash Deferred Settlement Date no prior written approval as aforesaid has been given (if such approval is required under Applicable Regulations at the relevant time), the relevant Deferred Interest will be due and payable promptly following the obtaining of such written approval (if such approval is required under Applicable Regulations at the relevant time) and the giving of not more than 30 nor less than 15 days' notice to such effect by the Issuer to the Trustee and to Noteholders in accordance with Condition 13. References herein to "**Cash Deferred Settlement Date**" shall be construed accordingly to refer to such later date for payment.

If the applicable Final Terms specify that APM Settlement is applicable, the Issuer and ZFS may (subject as provided below in relation to Deferred Interest) elect at any time upon the expiry of not less than seven days' written notice to such effect given by the Issuer to the Trustee, the Agent and, in accordance with Condition 13, the Noteholders, to use their commercially reasonable efforts to satisfy in whole or in part any Deferred Interest utilising the APM (as defined below) (subject to the limitations and conditions applicable to the APM) and, unless Deferred Interest has already been satisfied pursuant to the APM or cancelled in accordance with the applicable Final Terms, the Issuer and ZFS shall (subject as provided below in relation to Deferred Interest) use their commercially reasonable efforts to apply the APM (subject to the limitations and conditions applicable to the APM) to satisfy all (or, in the case where limb (iv) of the definition of APM Deferred Settlement Date applies, on a proportionate basis) of the outstanding Deferred Interest upon the APM Deferred Settlement Date (as defined below).

Notwithstanding the foregoing, the Issuer and ZFS will only be obliged to use their commercially reasonable efforts to satisfy any Deferred Interest as aforesaid if at the relevant time the prior written approval of FINMA or any Successor Authority to such payment has been given. If on the APM Deferred Settlement Date no prior written approval as aforesaid has been given, the Issuer and ZFS shall be obliged to use their commercially reasonable efforts to satisfy any Deferred Interest promptly following the obtaining of such written approval and the giving of not more than 30 nor less than 15 days' notice to such effect by the Issuer to the Trustee and to Noteholders in accordance with Condition 13. References herein to "**APM Deferred Settlement Date**" shall be construed accordingly to refer to such later date for payment.

A certificate as to whether or not written approval of FINMA or any Successor Authority as aforesaid has been given signed by two Directors of the Issuer or ZFS, shall, in the absence of manifest error, be treated and accepted by the Issuer, the Noteholders, the Trustee, the Receipholders, the Couponholders and all other interested parties as correct and sufficient evidence thereof. The Trustee shall be entitled to rely upon such certification absolutely without liability to any person.

As used herein:

"**APM Deferred Settlement Date**" means, subject as provided above and in Condition 3(c) in relation to Fixed Term Deferred Interest Payments, the first to occur of the following dates:

- (i) the date on which the Capital Notes are called for redemption pursuant to Condition 6 or substituted or varied pursuant to Condition 6(e);
- (ii) the next following Interest Payment Date on which the Issuer makes a payment of interest on the Capital Notes;
- (iii) (A) as soon as practicable after cash proceeds representing the full amount of Deferred Interest have been realised from the APM which will be implemented following the declaration or payment by ZFS of any dividends or other payments (including any nominal value reduction under Swiss law) on any of its ordinary shares or on any of its other capital stock that may then exist, except in the circumstances described in subparagraphs (i) to (v) of the fourth paragraph of Condition 3(d) or (B) in the event that the Ordinary Share Issuance Threshold or the Parity Obligation Threshold, as applicable, has been met or a Market Disruption Event has occurred, in each case prior to the realisation of the full amount of Deferred Interest from such APM, in an amount equal to the actual cash proceeds realised at the time such threshold has been met or such Market Disruption Event has occurred, as applicable;
- (iv) the Interest Payment Date next following a full or partial payment of current or deferred interest on any Parity Obligation (except for any such interest due at the end of a specified maximum deferral period following the deferral of interest in accordance with the terms of the relevant Parity Obligation (including as a result of the maturity of such obligation)), in which case the relevant proportion shall be equal to the result from the division of the amount of the full or partial payment actually paid on the Parity Obligation by the outstanding amount (current or deferred) of the payment to which such full or partial payment relates that is payable on the Parity Obligation when such payment is made in full (for the avoidance of doubt, the terms of other obligations issued by the Issuer may be such as not to make them qualify as Parity Obligations specifically for these purposes);

- (v) the date on which the Issuer is dissolved pursuant to Article 736 of the Swiss Code of Obligations (other than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring whilst solvent, where the continuing entity assumes substantially all of the assets and obligations of the Issuer); or
- (vi) if none of the events referred to in (i), (ii), (iii), (iv) or (v) above have already occurred and the applicable Final Terms so provide, upon expiration of the time period specified in the applicable Final Terms following the date upon which deferral of the relevant Deferred Interest or Solvency Deferred Interest commenced.

“Cash Deferred Settlement Date” means, subject as provided above and in Condition 3(c) in relation to Fixed Term Deferred Interest Payments, the first to occur of the dates specified in paragraphs (i), (ii), (v) and, if so specified in the applicable Final Terms, (iv) and/or (vi) of the definition of “APM Deferred Settlement Date” above. If limb (vi) of the definition of APM Deferred Settlement Date is specified in the applicable Final Terms as being applicable in the context of the definition of either APM Deferred Settlement Date or Cash Deferred Settlement Date and the Issuer and ZFS become obliged to pay or, as appropriate, use their commercially reasonable efforts to satisfy Deferred Interest by way of the APM, as a result of limb (vi) of the definition of APM Deferred Settlement Date, then solely in respect of such Interest Payment and without prejudice to Condition 2, the Capital Notes rank senior to any existing or future obligations of the Issuer (**“other obligations”**) that would otherwise have ranked *pari passu* with the Capital Notes, if and to the extent payment of such Deferred Interest would otherwise be prohibited by any Restricted Payments Provision in such other obligations as a result of interest being outstanding with respect to such other obligations.

In relation to Optionally Deferred Interest or Solvency Deferred Interest, if limb (vi) above is not specified in the applicable Final Terms as being applicable and if none of the events in limb (i) to (v) of such definition take place prior to the date specified in the applicable Final Terms for this purpose following the Interest Payment Date on which such Optionally Deferred Interest or Solvency Deferred Interest was originally deferred, the Issuer and ZFS intend to raise sufficient proceeds from the operation of the APM or utilise PIK (if specified in the applicable Final Terms) to satisfy any Optionally Deferred Interest or Solvency Deferred Interest.

Alternative Payment Mechanism

The Issuer may elect at its discretion to satisfy on the relevant Interest Payment Date any Interest Payment that would otherwise have been due on such Interest Payment Date without application of Conditions 3(a), 3(b) and 3(c) with funds raised prior to the Interest Payment Date by way of an APM (as defined in Condition 3(e))

If APM Settlement (as aforesaid) is applicable, the Issuer and ZFS shall satisfy their obligations in respect of Deferred Interest which falls due by way of the alternative payment mechanism (the **“APM”**), that is by one (or a combination) of the following, as specified in the relevant Final Terms, on the relevant APM Deferred Settlement Date:

- (a) **“Ordinary Share Settlement”** means using cash proceeds from the sale, during the period of six months immediately prior to the relevant APM Deferred Settlement Date (the **“Relevant Period”**), of existing or newly issued ordinary shares of ZFS (the **“Payment Shares”**) which proceeds are made available by ZFS to the Issuer or, to the extent permitted under prevailing applicable regulatory criteria governing the Capital Notes, Qualifying Mandatory Convertibles to make the relevant payment.
- (b) **“Eligible Security Settlement”** means, to the extent permitted under prevailing applicable regulatory criteria governing the Capital Notes, using cash proceeds from the issuance, during the Relevant Period, of Eligible Securities which proceeds are made available to the Issuer to make the relevant payment.
- (c) **“Warrant Settlement”** means, to the extent permitted under prevailing applicable regulatory criteria governing the Capital Notes, using cash proceeds from the sale, during the Relevant Period, of Qualifying Warrants which proceeds are made available by ZFS to the Issuer.
- (d) **“Payment-in-Kind” (“PIK”)** means, to the extent permitted under prevailing applicable regulatory criteria governing the Capital Notes, increasing the outstanding aggregate principal amount of the Capital Notes by an amount equal to all of the outstanding Deferred Interest which is then due (the **“PIK Amount”**), and the outstanding principal amount of each Capital Note shall be so increased. For the avoidance of doubt, if PIK is utilised, it may only be used on an Interest Payment Date.

If APM Settlement (as aforesaid) is applicable, the Issuer shall (except in the case of a voluntary or involuntary insolvency, winding up, liquidation, dissolution or other similar proceedings of or against the Issuer) satisfy its obligations in respect of Deferred Interest only by operation of the APM in accordance with this Condition 3(e).

In the event of the Issuer and ZFS satisfying their obligations in respect of Deferred Interest by operation of the APM the Issuer shall certify, by delivering to the Trustee a certificate signed by two Directors of the Issuer, as to the type of APM used by the Issuer and in making use of such APM, the Issuer or ZFS was in compliance with its obligations under this Condition 3(e) which the Trustee shall rely on absolutely without liability to any person.

As used herein:

“Eligible Securities” means any securities or other instruments that receive equal or more favourable regulatory capital credit from the FINMA or Successor Authority and/or equal or greater equity credit from the rating agencies relative to the Capital Notes issued directly or indirectly by the Issuer or other members of ZFS.

“Qualifying APM Securities” means ordinary shares of ZFS (including, to the extent available, treasury stock purchased at least six months prior to the date of sale of such treasury stock), Qualifying Mandatory Convertibles, Eligible Securities and Qualifying Warrants.

Restrictions relating to the APM

Upon the Issuer and ZFS becoming obliged to use their commercially reasonable efforts to settle Deferred Interest using the APM pursuant to this Condition 3(e), the Issuer and ZFS will use their commercially reasonable efforts to satisfy such Deferred Interest by way of Ordinary Share Settlement, Eligible Security Settlement or Warrant Settlement. Only if the Issuer and ZFS are unable to satisfy Deferred Interest that is due and payable by way of Ordinary Share Settlement, Eligible Security Settlement or Warrant Settlement, will the Issuer and ZFS use their commercially reasonable efforts to utilise PIK in accordance with the provisions of this Condition 3(e). The Issuer and ZFS may only utilise the Ordinary Share Settlement and the Warrant Settlement to the extent that the number of Payment Shares used for the purposes of the APM in any 12-month period together with the maximum number of ordinary shares which may be issued pursuant to the terms (as of their respective dates of issuance) of all Qualifying Mandatory Convertibles and Qualifying Warrants issued during the same 12-month period for this purpose does not exceed 2 per cent (**“Ordinary Share Issuance Threshold”**) of ZFS’s outstanding share capital, provided that for the purpose of determining whether or not this limitation has been exceeded, no account shall be taken of any Mandatorily Deferred Interest that was settled within 30 days of being deferred. Calculation of such percentage will apply to Mandatorily Deferred Interest solely and exclusively to the use of Ordinary Share Settlement and/or Warrant Settlement where deferral was triggered by the occurrence or the continuation of a Trigger Event (if applicable). Calculation of such percentage will also apply to the use of Ordinary Share Settlement and/or Warrant Settlement for the settlement of Optionally Deferred Interest only if the terms and conditions of the issued Capital Notes do not also include a provision for Mandatory Deferral of Interest. If ZFS sells Qualifying Warrants to pay Deferred Interest pursuant to the APM, it will be required to use its commercially reasonable efforts, subject to the Ordinary Share Issuance Threshold to set the terms of the Qualifying Warrants so as to raise sufficient proceeds from their issuance to pay all Deferred Interest in accordance with the APM.

In the event of the Issuer and ZFS satisfying their obligations in respect of Deferred Interest by utilisation of Ordinary Share Settlement and Warrant Settlement, the Issuer shall certify, by delivering to the Trustee a certificate signed by two Directors of the Issuer, that the Ordinary Share Issuance Threshold has not been exceeded which the Trustee shall rely on absolutely without liability to any person.

The Issuer and ZFS may only utilise Eligible Security Settlement and/or PIK to the extent the aggregate principal amount of qualifying Non-Cumulative Eligible Securities to be issued and other Eligible Securities (together with any Eligible Securities previously issued) and any PIK Amount (together with any previous PIK Amounts) would not exceed 25 per cent (the **“Parity Obligation Threshold”**) of the initial aggregate principal amount of the Capital Notes, provided that the aggregate principal amount of Eligible Securities which are not qualifying Non-Cumulative Eligible Securities (together with any such Eligible Securities previously issued) and/or the PIK Amount (together with any previous PIK Amounts) may not exceed 15 per cent (the **“Parity Obligation Sub-Threshold”**) of the initial aggregate principal amount of the Capital Notes. Calculation of the Parity Obligation Threshold and/or Parity Obligation Sub-Threshold will apply to Mandatorily Deferred Interest solely and exclusively to the use of Eligible Security Settlement and/or PIK where deferral was triggered by the occurrence or the continuation of a Trigger Event (if applicable). Calculation of the Parity Obligation Threshold and/or Parity Obligation Sub-Threshold will also apply to the use of Eligible Security Settlement and/or PIK, as the case may be, for settlement of Optionally Deferred Interest only if the terms and conditions of the issued Capital Notes do not also include a provision for Mandatory Deferral of Interest.

In the event of the Issuer and ZFS satisfying their obligations in respect of Deferred Interest by utilisation of Eligibility Security Settlement and/or PIK, the Issuer shall certify, by delivering to the Trustee a certificate signed by two Directors of the Issuer, that

neither the Parity Obligation Share Threshold nor the Parity Obligation Sub-Threshold have been exceeded which the Trustee shall rely on absolutely without liability to any person.

Periods of Application of the APM

Once the Issuer and ZFS have become obliged hereunder to use their respective commercially reasonable efforts to operate the APM to settle any Optionally Deferred Interest or Solvency Deferred Interest, the Issuer and ZFS shall continue to use their respective commercially reasonable efforts to raise sufficient proceeds from the operation of the APM or utilise PIK (if specified in the applicable Final Terms) for up to the period specified in the applicable Final Terms for this purpose following the relevant Deferred Settlement Date to the extent permitted under prevailing applicable regulatory criteria governing the Capital Notes. If there exists, in the Issuer's reasonable opinion, a Market Disruption Event (as defined below), then the specified period described above shall be extended by a period equal to the time during which the Market Disruption Event exists plus 60 Zurich business days.

Once the Issuer and ZFS have become obliged to use their respective commercially reasonable efforts to operate the APM to settle Mandatorily Deferred Interest, the Issuer and ZFS shall continue to use their respective commercially reasonable efforts to raise sufficient proceeds from the operation of the APM or utilise PIK (if specified in the applicable Final Terms) during the time period specified in the applicable Final Terms to the extent permitted under prevailing applicable regulatory criteria governing the Capital Notes. If there exists, in the Issuer's reasonable opinion, a Market Disruption Event (as defined below), then the specified time period shall be extended by a period equal to the time during which the Market Disruption Event exists plus 60 Zurich business days.

If the applicable Final Terms provide that Intention Statement is applicable, then the applicable Final Terms shall specify the period for which the Issuer and ZFS intend to continue voluntarily to operate the APM if for any reason this has not occurred within the original period of 30 days from the Interest Payment Date in relation to which a Trigger Event is occurring.

If and to the extent that the Issuer and/or ZFS have not (i) issued Qualifying APM Securities or (ii) utilised PIK (if specified in the applicable Final Terms) to settle any Deferred Interest in full within such specified time period, or, if such time periods do not otherwise apply, upon expiration of the period specified in the applicable Final Terms for this purpose after the date on which such Deferred Interest was originally deferred, the Issuer's obligation with respect to such unsettled Deferred Interest will be cancelled.

As used herein **"Market Disruption Event"** means the occurrence or existence of any of the following events or sets of circumstances: (i) the trading in the shares of ZFS or Eligible Securities generally on any internationally recognised exchange on which such securities are traded has been suspended or the settlement of such trading generally shall have been materially disrupted; (ii) a general moratorium shall have been declared on commercial banking activities or securities settlement systems in Switzerland, the US, the U.K. or the region comprised of member states of the European Union that adopted the euro in accordance with the Treaty establishing the European Community of 25 March 1957, as amended, as a result of which trading in shares of ZFS or Eligible Securities has been materially disrupted; (iii) there shall have occurred a change, event or circumstance that could be expected to result in a prospective change in Swiss taxation materially and adversely affecting the Issuer or ZFS, the ordinary shares of ZFS or the imposition of exchange controls by Switzerland; or (iv) there shall have occurred an outbreak or escalation of hostilities, any terrorist attacks or calamity or crisis, or any change or development involving or likely to involve a prospective change in national or international financial, political or economic conditions in any country, as a result of which trading in shares of ZFS or Eligible Securities has been materially disrupted. The Trustee shall be entitled to rely absolutely without liability to any person on a certificate given to it by two Directors of the Issuer as to the occurrence in the Issuer's reasonable opinion of a Market Disruption Event.

If so specified in the applicable Final Terms, in the event of voluntary or involuntary insolvency, liquidation, winding-up or dissolution of the Issuer and/or ZFS, making the APM unusable, holders of the Capital Notes will have no claim for, and no right to receive, unpaid Deferred Interest that has not been settled through the application of the APM to the extent that such amount exceeds 25 per cent of the aggregate principal amount of the Capital Notes (less the amount, if any, corresponding to Deferred Interest already paid on such Capital Notes that was funded by the issuance of Eligible Securities or through the utilisation of PIK (the **"Liquidation Amount Threshold"**)). Any claim in excess of the Liquidation Amount Threshold shall be cancelled.

4. Interest

(a) Interest on Fixed Rate Capital Notes

Each Fixed Rate Capital Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year and (if applicable) on the Maturity Date or other date fixed for redemption if that does not fall on an Interest Payment Date.

Except as provided in the applicable Final Terms and subject to Condition 3, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

If interest is required to be calculated for a period ending other than on an Interest Payment Date, such interest shall be calculated by applying the Rate of Interest to each calculation amount as specified in the applicable Final Terms ("**Calculation Amount**") multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

For the purposes of these Conditions "**Fixed Day Count Fraction**" means:

- (i) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:
 - (a) where the relevant period (from and including the first day to but excluding the last day) is equal to or shorter than the Regular Period during which it falls, the actual number of days in the relevant period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods normally ending in any year; and
 - (b) where the relevant period (from and including the first day to but excluding the last day) is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such relevant period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such relevant period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods normally ending in any year;
- (ii) if "**30/360**" is specified in the applicable Final Terms, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360; and

"**Regular Period**" means:

- (i) in the case of Capital Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Capital Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Capital Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"**sub-unit**" with respect to any currency other than euro, means the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Floating Rate Capital Notes and Indexed Interest Capital Notes

(i) Interest Payment Dates

Each Floating Rate Capital Note and Indexed Interest Capital Note bears interest on its nominal amount from (and including) the Interest Commencement Date and such interest will be payable, subject to Condition 3, in arrear on either:

- (a) the Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (b) if no express Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable, subject to Condition 3, in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to but excluding the next Interest Payment Date).

If the business day convention is specified in the applicable Final Terms and if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the business day convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(b) above, the Floating Rate Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition, “**Business Day**” means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments in London and any Additional Business Centre specified in the applicable Final Terms; and
- (b) either (1) in relation to interest payable in Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre) or (2) in relation to interest payable in euro, a day on which the TARGET system is operating.

For the purposes of these Conditions “**TARGET system**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer, known as TARGET 2, System which was launched on 19 November 2007 or any successor thereto.

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Capital Notes and Indexed Interest Capital Notes will be determined in the manner specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Capital Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;

- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (LIBOR) or the European inter-bank offered rate (EURIBOR) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

When this sub-paragraph (A) applies, in respect of each relevant Interest Period the Agent will be deemed to have discharged its obligations under Condition 4(b)(iv) in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (A).

(B) Screen Rate Determination for Floating Rate Capital Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time or in the case of EURIBOR, Brussels time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation appears or, in the case of (ii) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Capital Notes is specified in the applicable Final Terms as being other than the London inter-bank offered rate or EURIBOR, the Rate of Interest in respect of such Capital Notes will be determined as provided in the applicable Final Terms.

(iii) Minimum and/or Maximum Interest Rate

If the applicable Final Terms specify a Minimum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Interest Rate, the Rate of Interest for such Interest Period shall be such Minimum Interest Rate.

If the applicable Final Terms specify a Maximum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Interest Rate, the Rate of Interest for such Interest Period shall be such Maximum Interest Rate.

(iv) Determination of Rate of Interest and Calculation of Interest Amounts

The Agent, in the case of Floating Rate Capital Notes, or the Calculation Agent specified in the applicable Final Terms, in the case of Indexed Interest Capital Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Indexed Interest Capital Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the **“Interest Amount”**) payable on the Floating Rate Capital Notes or Indexed Interest Capital Notes in respect of each Calculation Amount for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Calculation Amount, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest of any Interest Period:

- (A) if **“Actual/Actual”** or **“Actual/Actual/ISDA”** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if **“Actual/365 (Fixed)”** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if **“Actual/360”** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (D) if **“30/360”**, **“360/360”** or **“Bond Basis”** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_{(2)} - Y_{(1)})] + [30 \times (M_{(2)} - M_{(1)})] + (D_{(2)} - D_{(1)})}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (E) if **“30E/360”** or **“Eurobond Basis”** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_{(2)} - Y_{(1)})] + [30 \times (M_{(2)} - M_{(1)})] + (D_{(2)} - D_{(1)})}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30; and

(F) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_{(2)} - Y_{(1)})] + [30 \times (M_{(2)} - M_{(1)})] + (D_{(2)} - D_{(1)})}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₂ will be 30.

(v) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Capital Notes or Indexed Interest Capital Notes are for the time being listed and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined below) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange, listing authority and/or quotation system by which the relevant Floating Rate Capital Notes or Indexed Interest Capital Notes are for the time being admitted to listing, trading and/or quotation and to the Noteholders in accordance with Condition 13. In these Conditions “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) Determination or Calculation by Trustee

If for any reason the Agent or, as the case may be, the Calculation Agent at any time after the Issue Date defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with paragraphs (ii) and (iv) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any minimum or maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent or the Calculation Agent, as applicable.

(vii) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), whether by the Agent or the Trustee or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Agent, the Calculation Agent (if applicable), the other Paying Agents, the Registrar and any Transfer Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent, the Trustee or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) Dual Currency Capital Notes

In the case of Dual Currency Capital Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Final Terms.

(d) Accrual of Interest

Each Capital Note (or, in the case of the redemption of part only of a Capital Note, that part only of such Capital Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

(e) Recalculation of Interest

If a tax deduction or withholding (collectively, a **“Tax Deduction”**) is required by law to be made by the Issuer in respect of any interest payable in respect of the Capital Notes and should Condition 7(a) be unlawful for any reason, the applicable Rate of Interest in relation to Interest Amounts payable for the period ending on that Interest Payment Date will, subject to the exceptions in Condition 7(b), be the Rate of Interest which would have otherwise been payable for the period ending on that Interest Payment Date divided by 1 minus the rate (expressed as a fraction of 1) at which the relevant Tax Deduction is required to be made and the Issuer will (i) be obligated to pay the relevant Interest Amount on that Interest Payment Date at the adjusted rate in accordance with this Condition 4(e) and (ii) make the Tax Deduction on the recalculated interest amount. Without prejudice to the foregoing, all references to a Rate of Interest in the Conditions shall be construed accordingly and all provisions in Condition 7 (other than Condition 7(a)) shall apply to the Tax Deduction on the recalculated interest payment (such recalculation is referred to herein as a **“Recalculation of Interest”**).

5. Payments

(a) Method of Payment

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is New Zealand dollars, shall be Auckland); and
- (ii) payments in euro will be made by credit or transfer to an euro account specified by the payee.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7. References to **“Specified Currency”** will include any successor currency under applicable law.

(b) Presentation of Capital Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 5(a) above only against presentation and surrender (or, in the case of part payment only, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment only, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

In respect of Definitive Bearer Notes, payments of instalments of principal (if any), other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5(a) above against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Receipt at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)). Payment of the final instalment will be made in the manner provided in Condition 5(a) above only against presentation and surrender of the relevant Definitive Bearer Note in the manner provided in the preceding sentence. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Upon the date on which any Capital Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. Where any such Definitive Bearer Note is presented for redemption without all unmatured Receipts, Coupons or Talons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

If the due date for redemption of any Definitive Bearer Note is not a Fixed Interest Date or an Interest Payment Date, interest (if any) accrued in respect of such Definitive Bearer Note from (and including) the preceding Fixed Interest Date or Interest Payment Date or, as the case may be, the Interest Commencement Date shall, subject to Condition 3, be payable only against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Bearer Note.

Payments of principal and interest (if any) in respect of Capital Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes and otherwise in the manner specified in the relevant Bearer Global Note against presentation or surrender, as the case may be, of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of such Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note by such Paying Agent and such record shall be prima facie evidence that the payment in question has been made.

The holder of a Bearer Global Note shall be the only person entitled to receive payments in respect of Capital Notes represented by such Bearer Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Bearer Global Note in respect of each amount so paid.

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of this Bearer Global Note is payable in US dollars, such US dollar payments of principal and/or interest in respect of this Bearer Global Note will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in US dollars at such specified offices outside the United States of the full amount of principal and interest on the Capital Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in US dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

Payments of principal in respect of Registered Notes (whether in individual or global form) will be made in the manner provided in Condition 5(a) above against presentation and surrender (or, in the case of part payment of any sum due only, endorsement) of such Registered Global Note or Individual Registered Notes at the specified office of the Registrar or at the specified office of any Paying Agent. Payments of interest due on a Registered Note (whether in individual or global form) and payments of instalments (if any) of principal on a Registered Note, other than the final instalment, will be made to the person in whose name such Capital Note is registered at the close of business on the 15th day (whether or not such 15th day is a business day (being for the purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) (the **“Record Date”**)) prior to such due date. In the case of payments by cheque, cheques will be mailed to the holder (or the first named of joint holders) at such holder’s registered address on the due date. If payment is required by credit or transfer as referred to in Condition 5(a) above, application for such payment must be made by the holder to the Registrar not later than the relevant Record Date.

(c) Payment Day

If the date for payment of any amount in respect of any Capital Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment of the amount due until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, and unless otherwise specified in the applicable Final Terms, **“Payment Day”** means any day which is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, in any Payment Business Centre specified in the applicable Final Terms and in the relevant place of presentation; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Business Centre) or (2) in relation to Capital Notes denominated or payable in euro, a day on which the TARGET system is operating.

(d) Interpretation of Principal and Interest

Any reference in these Terms and Conditions to principal in respect of the Capital Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 7 or pursuant to any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed;
- (ii) the Early Redemption Amount (as specified in the applicable Final Terms) of the Capital Notes;
- (iii) the Optional Redemption Amount(s) (as specified in the applicable Final Terms) (if any) of the Capital Notes;
- (iv) in relation to Capital Notes redeemable in instalments, the Instalment Amounts (as specified in the applicable Final Terms); and
- (v) any premium and any other amounts which may be payable by the Issuer under or in respect of the Capital Notes.

Any reference in these Terms and Conditions to interest in respect of the Capital Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

(e) Payments on Listed Swiss Franc Capital Notes

The receipt by the Principal Paying Agent named in the applicable Final Terms (the **“Principal Paying Agent”**) from the Issuer of each payment in full of principal and/or interest then due in respect of any Listed Swiss Franc Capital Notes at the time and in the manner specified in the agency agreement appointing the Principal Paying Agent to act as such in relation to the Listed Swiss Franc Capital Notes shall (except to the extent that such payment is avoided or set aside for any reason) satisfy the obligation of the Issuer under such Capital Notes to make such payment on such date and shall (except as aforesaid) release it from all further obligations in respect of such payment.

(g) Definition

In this Condition, “euro” means the single currency adopted by those states participating in European Monetary Union from time to time.

6. Redemption and Purchase

(a) At Maturity

Each Capital Note which is specified in the applicable Final Terms as being a Dated Capital Note (“**Dated Capital Notes**”), unless previously redeemed or purchased and cancelled as specified below, will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms together, if applicable, with interest accrued to the date fixed for redemption and, in the case of Capital Notes which are specified in the applicable Final Terms as being Cumulative, any applicable Deferred Interest on the Maturity Date provided that, in the case of Dated Capital Notes if so specified in the applicable Final Terms, if a Solvency Event has occurred and is continuing on the Maturity Date or would occur as a result of the relevant redemption, the Dated Capital Notes shall not be redeemed, unless the prior written approval of FINMA or any Successor Authority for such payment has been given. In such circumstances, if a Solvency Event has occurred and is continuing on the Maturity Date and no prior written approval as aforesaid has been given, each such Dated Capital Note will be redeemed by the Issuer promptly following either the obtaining of such written approval or no Solvency Event continuing (including following the relevant redemption) and the giving of not more than 30 nor less than 15 days’ notice to such effect by the Issuer to Noteholders in accordance with Condition 13. References herein to “**Maturity Date**” shall be construed accordingly to refer to such later date of redemption and for the avoidance of doubt, interest shall continue to accrue (without compounding) as provided in Condition 4 on any such Dated Capital Note until such later date of redemption.

A certificate as to the occurrence of a Solvency Event and as to whether or not written approval of FINMA or any Successor Authority as aforesaid has been given signed by two Directors of the Issuer or ZFS, shall, in the absence of manifest error be treated and accepted by the Issuer, the Noteholders, the Trustee, the Receiptholders, the Couponholders and all other interested parties as correct and sufficient evidence thereof. The Trustee shall be entitled to rely upon such certification absolutely without liability to any persons.

Each Capital Note which is specified in the applicable Final Terms as an Undated Capital Note (“**Undated Capital Notes**”) is perpetual and has no fixed maturity date and is only redeemable or repayable in accordance with the following provisions of this Condition 6 or Condition 9.

(b) Redemption for Tax Reasons

The Capital Notes may, subject to Condition 6(j), be redeemed at the option of the Issuer prior to the first Optional Redemption Date in whole, but not in part, at any time (if this Capital Note is neither a Floating Rate Capital Note nor an Indexed Interest Capital Note) or on any Interest Payment Date (if this Capital Note is either a Floating Rate Capital Note or an Indexed Interest Capital Note) at the relevant Regular Redemption Price or, as appropriate, Special Redemption Price referred to below, together, if applicable, with interest accrued to the date fixed for redemption and, in the case of Capital Notes which are specified in the applicable Final Terms as being Cumulative, any applicable Deferred Interest, on giving not less than 30 nor more than 60 days’ notice to the Trustee and the Agent and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

- (i) on the occasion of the next payment due under the Capital Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of (a) any law or regulation in existence on the Issue Date (in which case the Special Redemption Price specified in the applicable Final Terms shall apply) or (b) change in, or amendment to, the laws or regulations of the Relevant Jurisdiction(s) (as defined below) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Capital Notes (a “**Tax Law Change**”) (in which case the Regular Redemption Price specified in the applicable Final Terms shall apply); and in the case of both (a) and (b) such obligation cannot be avoided by the Issuer taking such reasonable measures available to it as it (acting in good faith) deems appropriate, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Capital Notes then due;
- (ii) on the occasion of the next payment of interest due under the Capital Notes, the Issuer would not be able to obtain a tax deduction for the purposes of Swiss corporation tax for that payment as a result of (a) any law or regulation in existence on the Issue Date (in which case the Special Redemption Price specified in the applicable Final Terms shall apply) or (b) a Tax Law

Change (in which case the Regular Redemption Price specified in the applicable Final Terms shall apply) and in the case of both (a) and (b) such cannot be avoided by the Issuer taking such reasonable measures available to it as it (acting in good faith) deems appropriate; or

- (iii) on the occurrence of a Recalculation of Interest which (a) arises as a result of a Tax Law Change, in which case the Regular Redemption Price specified in the applicable Final Terms shall apply or (b) arises otherwise than as a result of a Tax Law Change, in which case the Special Redemption Price specified in the applicable Final Terms shall apply; and in the case of both (a) and (b) such Recalculation of Interest cannot be avoided by the Issuer taking such reasonable measures available to it as it (acting in good faith) deems appropriate, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Capital Notes then due.

The Trustee is under no obligation to ascertain whether any of the events described in this Condition or any event which could lead to the occurrence of, or could constitute any such event, has occurred and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no such event has occurred.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to such effect and the Trustee shall be entitled to accept the certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

In these Conditions, “**Relevant Jurisdiction(s)**” means, unless otherwise specified in the applicable Final Terms, Switzerland.

(c) Redemption for Other Reasons

The Capital Notes may, subject to Condition 6(j), be redeemed at the option of the Issuer prior to the first Optional Redemption Date in whole, but not in part, at any time (if this Capital Note is neither a Floating Rate Capital Note nor an Indexed Interest Capital Note) or on any Interest Payment Date (if this Capital Note is either a Floating Rate Capital Note or an Indexed Interest Capital Note) (provided that if at any time the inclusion of a redemption option due to an Accounting Event or a Capital Event (each as defined below) causes a Regulatory Event, the relevant date for redemption may only fall on or after the fifth anniversary of the Issue Date) at the Regular Redemption Price or the Special Redemption Price, as specified in the applicable Final Terms, together, if applicable, with interest accrued to the date fixed for redemption and, in the case of Capital Notes which are specified in the applicable Final Terms as being Cumulative, any applicable Deferred Interest on giving not less than 30 nor more than 60 days’ notice to the Trustee, the Agent and, in accordance with Condition 13, the Noteholders (which shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

- (i) if so specified in the applicable Final Terms, an Accounting Event has occurred and is continuing; or
- (ii) if so specified in the applicable Final Terms, a Capital Event has occurred and is continuing; or
- (iii) if so specified in the applicable Final Terms, a Regulatory Event has occurred and is continuing.

As used herein:

“**Accounting Event**” means that an opinion of a recognised accounting firm has been delivered to the Issuer, stating that obligations of the Issuer in respect of the Capital Notes must not or must no longer be recorded under the Initial Accounting Treatment Methodology specified in the applicable Final Terms (either “**liabilities**” or “**equity**”), (being the presentation of the Capital Notes under IFRS as at the Issue Date) on the balance sheet of ZFS published in its annual consolidated financial statements pursuant to IFRS and this cannot be avoided by the Issuer or, as the case may be, ZFS taking such reasonable measures as the Issuer or ZFS (acting in good faith) deems appropriate. The Issuer will deliver the applicable opinion to the Trustee.

“**Capital Event**” means a change by a nationally recognised statistical rating organisation to its equity credit criteria, or the interpretation or application thereof, for securities such as the Capital Notes, as such criteria are in effect on the Issue Date (the “**current criteria**”), which change has been confirmed in writing to the Issuer by such organisation and results in a lower equity credit being given to the Capital Notes as of the date of such change by such nationally recognised statistical rating organisation pursuant to its current criteria and the Issuer shall deliver such written notification of such nationally recognised statistical rating organisation to the Trustee.

“Future Regulations” means the solvency margin, regulatory capital or capital regulations (if any) which may be introduced in Switzerland (or if ZIC becomes domiciled for regulatory purposes in a jurisdiction other than Switzerland, such other jurisdiction) and which are applicable to ZIC, which would set out the requirements to be fulfilled by financial instruments in order to be eligible to be included in Tier Two (or equivalent) own funds regulatory capital.

“Regulatory Event” means, in respect of Undated Capital Notes, the occurrence of any of the following events which occurrence cannot be avoided by the Issuer taking such reasonable measures as the Issuer (acting in good faith) deems appropriate:

- (A) prior to the implementation of the Future Regulations, the FINMA or any Successor Authority states that the Capital Notes are no longer eligible to qualify as at least upper additional capital (“oberes ergänzendes Kapital”) pursuant to Art. 49 in connection with Art. 39 of the SPICO (as defined below), and no longer fulfil the requirements for such category, or equivalent thereof, for group or solo solvency purposes; or
- (B) with effect from the implementation of the Future Regulations, the Capital Notes do not qualify as at least Tier Two own funds (or equivalent) under such Future Regulations (or an official application or interpretation of those regulations including a decision of a court or tribunal); or
- (C) the FINMA or any Successor Authority issues guidance after the Issue Date in relation to Tier 1 Capital (“Kernkapital”) qualifying instruments for group or solo solvency purposes (by way of law, ordinance, regulation or interpretation thereof), and the FINMA or any Successor Authority affords the Capital Notes recognition as Tier 1 Capital (“Kernkapital”) for group or solo solvency purposes, and at a subsequent time the FINMA or any Successor Authority states that the Capital Notes no longer fulfil the requirements of Tier 1 Capital (“Kernkapital”),

save, in each case above, where such non-qualification thereof applicable to the Capital Notes is only as a result of any applicable limitation on the amount of such capital.

“Regulatory Event” means, in respect of Dated Capital Notes, the occurrence of any of the following events which occurrence cannot be avoided by the Issuer taking such reasonable measures as the Issuer (acting in good faith) deems appropriate:

- (A) prior to the implementation of the Future Regulations, the FINMA or any Successor Authority states that the Capital Notes are no longer eligible to qualify as at least lower additional capital pursuant to Art. 49 in connection with Art. 39 of the SPICO (as defined below), and no longer fulfil the requirements for such category, or equivalent thereof, for group or solo solvency purposes; or
- (B) with effect from the implementation of the Future Regulations, the Capital Notes do not qualify as at least Tier Two own funds (or equivalent) under such Future Regulations (or an official application or interpretation of those regulations including a decision of a court or tribunal),

save, in each case above, where such non-qualification thereof applicable to the Capital Notes is only as a result of any applicable limitation on the amount of such capital.

“SPICO” means the Ordinance on the Supervision of Private Insurance Companies (*Verordnung über die Beaufsichtigung von privaten Versicherungsunternehmen* — AVO) of 9 November 2005, as amended.

“Special Event” means any of an Accounting Event, a Capital Event or a Regulatory Event or any combination of the foregoing;

“Tier 1 Capital” means core capital (“Kernkapital”) pursuant to Art. 48 SPICO.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the circumstances described in the definitions of Accounting Event, Capital Event or Regulatory Event (as appropriate) have occurred and that, where such Special Event requires reasonable measures as the Issuer or, as the case may be, ZFS may deem appropriate to be taken, the relevant Special Event cannot be avoided by the Issuer or, as the case may be, ZFS taking such measures and the Trustee shall be entitled to accept such certificate as sufficient evidence that the circumstances described in the relevant Special Event apply, in which event it shall be conclusive and binding on the Noteholders, Receiptholders and the Couponholders.

The Trustee is under no obligation to ascertain whether any Special Event or any event which could lead to the occurrence of, or could constitute, any such Special Event, has occurred and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no such Special Event has occurred.

(d) Redemption at the Option of the Issuer

Subject to Condition 6(j), the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 13; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), written notice to the Trustee and the Agent,

(which notices shall be irrevocable), redeem all but not, unless so specified in the applicable Final Terms, some only of the Capital Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date and, in the case of Capital Notes which are specified in the applicable Final Terms as being Cumulative, any applicable Deferred Interest.

(e) Substitution or Variation

If any of the events described in Condition 6(b) or 6(c) has occurred and is continuing, then the Issuer may, subject to Condition 6(j), (without any requirement for the consent or approval of the Noteholders) and subject to having satisfied the Trustee immediately prior to the giving of such notice referred to herein that the provisions of this Condition 6(e) have been complied with and having given not less than seven days' written notice to the Trustee, the Agent and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), at any time either substitute all (but not some only) of the Capital Notes for, or vary the terms of the Capital Notes so that they remain or, as appropriate, become, Qualifying Securities and the Trustee shall (subject as provided below and to the following provision of this Condition 6(e) being complied with and subject further to the receipt by the Trustee of a certification by the Directors of the Issuer referred to below) agree to such substitution or variation. In connection therewith, in the case of Capital Notes which are specified in the applicable Final Terms as being Cumulative, all applicable Deferred Interest (if any) will be satisfied by operation of the APM or otherwise, as applicable.

Upon the expiry of such notice, the Issuer shall either vary the terms of, or substitute, the Capital Notes in accordance with this Condition 6(e), as the case may be. The Trustee shall not be obliged to participate in any substitution or variation of the Capital Notes for any proposed alternative Qualifying Securities if the terms of the proposed alternative Qualifying Securities would impose, in the Trustee's opinion, more onerous obligations on it.

As used herein, **"Qualifying Securities"** means securities:

- (a) having terms that are not less favourable to an investor than the terms of the Capital Notes (as reasonably determined by the Issuer, and provided that a certification to such effect of two Directors of the Issuer shall have been delivered to the Trustee prior to the issue of the relevant securities); and
- (b) issued by the Issuer or issued by another member of the Zurich Financial Services Group with a guarantee by the Issuer, such that investors have the same material rights and claims as provided by the Capital Notes (as reasonably determined by the Issuer, and provided that a certification to such effect of two Directors shall have been delivered to the Trustee prior to the issue of the relevant securities); and
- (c) ranking at least equal to the Capital Notes and featuring the same principal amount, interest rate (including applicable margins and step-up), Interest Payment Dates and Optional Redemption Dates as the Capital Notes; and
- (d) listed on an internationally recognised stock exchange, if the Capital Notes were listed prior to such substitution or variation.

In addition, any substitution or modification is subject to (A) all interest amounts accrued and due, including Deferred Interest, being satisfied in full on or prior to the date hereof; (B) compliance with Condition 6(j); (C) the substitution or variation not itself giving rise to a change in any published rating of the Capital Notes in effect at such time as confirmed in writing by the rating organisations who have given such published rating of the Capital Notes previously; (D) the substitution or variation not triggering the right on the part of the Issuer to redeem the Capital Notes pursuant to Condition 6(b) or 6(c); and (E) certification by two Directors of the Issuer that the securities in question are **"Qualifying Securities"** in accordance with the definition set out above and that the conditions set out

herein have been complied with, which such certificate shall be delivered to the Trustee prior to the substitution or variation of the relevant securities and upon which certificate the Trustee shall be entitled to rely absolutely without liability to any person.

In connection with any substitution or variation as indicated above, the Issuer will comply with the rules of any stock exchange or other relevant authority on which the Capital Notes are then listed or admitted to trading.

(f) Maintenance of Capital

The applicable Final Terms will specify whether the Issuer or, as the case may be, ZFS intends to enter into a replacement capital covenant for the benefit of one or more designated series of the Issuer's debt securities. It is anticipated that the terms of any such replacement capital covenant will provide that the Issuer will not redeem or repurchase any of the relevant Capital Notes and will not permit any subsidiary to purchase any of the relevant Capital Notes, unless and to the extent that the aggregate redemption, repurchase or purchase price is equal to or less than the net proceeds (or in certain circumstances a specified percentage of such net proceeds) received by the Issuer, ZFS or their respective subsidiaries during the six months prior to such redemption, repurchase or purchase date from new issuances of qualifying securities and that the covenant will terminate on the redemption of the Capital Notes if not terminated earlier in accordance with its terms. Any such replacement capital covenant will continue to be effective following any substitution or variation of the Capital Notes in accordance with their terms.

In the event of a replacement capital covenant being specified in the applicable Final Terms, the Issuer will provide a certificate to the Trustee signed by two Directors of the Issuer prior to any redemption, repurchase or purchase referred to above that the conditions specified in such replacement capital covenant in relation to any such redemption, repurchase or purchase have been satisfied which the Trustee shall rely on absolutely without liability to any person.

If so specified in the applicable Final Terms, the following statement shall apply. The Capital Notes will form part of the Issuer's capital resources and, as such, it is the Issuer's intention to redeem the Capital Notes only to the extent that the Issuer, ZFS or any of their respective subsidiaries have, in the period of six months preceding such redemption, raised funds in an amount at least equal to the aggregate principal amount of the Capital Notes by the external issuance and sale of any ordinary shares or any securities that have equal or greater equity characteristics relative to the Capital Notes.

(g) Instalments

Instalment Capital Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the relevant redemption amount will be determined as provided in the applicable Final Terms.

(h) Purchases

The Issuer or any of its Subsidiaries (as such term is defined in the Trust Deed) may, subject to Condition 6(j) and, in the case of Restricted Capital Notes subject to Condition 10(j), at any time purchase Capital Notes (provided that, in the case of Definitive Bearer Notes, all unmaturing Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Capital Notes may be held, resold or, at the option of the Issuer, surrendered to any Paying Agent or the Registrar for cancellation.

(i) Cancellation

All Capital Notes which are redeemed or purchased and surrendered for cancellation will forthwith be cancelled (together, in the case of Definitive Bearer Notes, with all unmaturing Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Capital Notes so cancelled and the Capital Notes purchased and cancelled pursuant to Condition 6(h) above (together in the case of Definitive Bearer Notes with all unmaturing Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(j) Conditions to Redemption, Substitution, Variation and Purchase

The Issuer may only redeem a Capital Note, or substitute or vary it in accordance with Condition 6(e) (and the persons referred to in Condition 6(h) may only purchase a Capital Note) if the FINMA or any Successor Authority has given (and has not subsequently withdrawn) its consent to the redemption (or substitution or variation or purchase as appropriate) to the extent such consent is required or otherwise has not objected to such redemption (or substitution or variation or purchase).

7. Taxation

(a) Additional Amounts

All payments of principal, premium and interest in respect of the Capital Notes will be made free and clear of, and without any Tax Deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed by the Swiss Confederation or any subdivision thereof (“**Taxes**”), unless the Issuer is compelled by law to make such Tax Deduction. In the event of such Tax Deduction, the Issuer will pay such additional amounts (the “**Additional Amounts**”) as will result (after such Tax Deduction) in receipt by the Noteholders of such sums as the Noteholders would have received if no Tax Deduction had been required.

(b) Exceptions

However, no such Additional Amounts or increased interest to the extent recalculated pursuant to Condition 4(e) shall be payable with respect to such Taxes in respect of any Noteholder:

- (i) if Capital Notes other than Restricted Capital Notes are issued;
- (ii) if the Capital Note is presented for payment by or on behalf of a Noteholder which is liable to such taxes, duties, assessments or governmental charges in respect of that Capital Note by reason of it having some connection with the Relevant Jurisdiction other than the mere holding of that Capital Note;
- (iii) if the Capital Note is presented for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the relevant holder would have been entitled to payment of such Additional Amounts or recalculated interest if it had presented its Capital Note for payment on the 30th day after the Relevant Date, on the assumption if such is not the case, that such last day is a Business Day;
- (iv) where such Tax Deduction is imposed on a payment to an individual or a residual entity and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (v) if the Capital Note is presented for payment by or on behalf of a Noteholder which would have been able to avoid such Tax Deduction by presenting the Capital Note to a Paying Agent in another Member State of the European Union;
- (vi) (if so specified in the applicable Final Terms) if the payment could have been made to the relevant Noteholder without a Tax Deduction if it were a Qualifying Lender (as defined below), but on that date that Noteholder is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Noteholder under these Conditions in (or in the interpretation, administration, or application of) any law or double taxation treaty, or any published practice or concession of any relevant taxing authority; or
- (vii) if the payment could have been made without a Tax Deduction if the Noteholders had complied with Conditions 10(j) and 10(k) (if Condition 10(j) is expressed in the applicable Final Terms to apply).

(c) Evidence

Within 30 days of making either a Tax Deduction or a payment required in connection with a Tax Deduction, the Issuer shall deliver to the relevant Noteholder evidence satisfactory to that Noteholder (acting reasonably) that the Tax Deduction has been made or (as applicable) the appropriate payment has been paid to the relevant taxing authority.

(d) Refund

If the Issuer is required to make a Tax Deduction and the relevant Noteholder (acting in good faith) determines that (i) a Tax refund for such Tax Deduction is available to it and it has retained that Tax refund, that Noteholder shall pay within 10 Business Days after such Tax refund an amount to the Issuer which that Noteholder determines (in its sole discretion) will leave it (after that payment) in the same after-tax position as it would have been if the payment of the Additional Amount had not been required to be made by the Issuer.

(e) **Definitions**

As used in the Conditions:

“Guidelines” means, together, the guideline “Interbank Loans” of 22 September 1986 (S-02.123) (*Merkblatt “Verrechnungssteuer auf Zinsen von Bankguthaben, deren Gläubiger Banken sind (Interbankguthaben)” vom 22. September 1986*); the guideline “Syndicated Loans” of January 2000 (S-02.128) (*Merkblatt “Steuerliche Behandlung von Konsortialdarlehen, Schuldscheindarlehen, Wechseln und Unterbeteiligungen” vom Januar 2000*); the guideline “Bonds” of April 1999 (S 02.122.1) (*Merkblatt “Obligationen” vom April 1999*); the guideline “Client Credit Balances” of April 1999 (S-02.122.2) (*Merkblatt Kundenguthaben vom April 1999*); and the circular letter No. 15 (1-015-DVS-2007) of 7 February 2007 in relation to bonds and derivative financial instruments as subject matter of Swiss federal income tax, Swiss federal withholding tax and Swiss federal stamp taxes (*Kreisschreiben Nr. 15 “Obligationen und derivative Finanzinstrumente als Gegenstand der direkten Bundessteuer, der Verrechnungssteuer und der Stempelabgaben” vom 7. Februar 2007*), each as issued, and as amended from time to time, by the Swiss federal tax authorities.

“Non-Bank Rules” means the Ten Non-Bank Rule and the Twenty Non-Bank Rule (each as defined below).

“Permitted Non-Qualifying Lender” means in respect of a Series of Restricted Capital Notes a person or entity which is not a Qualifying Bank on the date it becomes a Noteholder and:

- (i) is initially a Permitted Non-Qualifying Lender (if any) specified in the applicable Final Terms (for so long as that Permitted Non-Qualifying Lender continues to be a Noteholder in accordance with the Conditions), or
- (ii) is a successor of an initial Permitted Non-Qualifying Lender, or any subsequent successor thereof, by way of Transfer (as defined in Condition 10(j)) of all but not some only of the Capital Notes held by such initial Permitted Non-Qualifying Lender, or such subsequent successor thereof (for so long as that successor continues to be a Noteholder in accordance with the Conditions), which:
 - (A) has prior to its becoming a Noteholder, satisfied all obligations to be fulfilled by a proposed Permitted Non-Qualifying Lender in accordance with Condition 10(j), provided that:
 - (a) within ten (10) Business Days of notification to it by the existing Permitted Non-Qualifying Lender of the identity of such proposed Permitted Non-Qualifying Lender, the Issuer may, as a condition precedent to such proposed Permitted Non-Qualifying Lender becoming a Noteholder:
 - (i) request from that proposed Permitted Non-Qualifying Lender a confirmation that it has disclosed to the Issuer all facts relevant to the determination as to whether it would be a Permitted Non-Qualifying Lender and would constitute one (1) person only for purposes of the Non-Bank Rules; and
 - (ii) irrespective of whether a request is made in accordance with paragraph (A)(a)(i) above, request from that proposed Permitted Non-Qualifying Lender a tax ruling of the Swiss Federal Tax Administration (at the cost of the existing Permitted Non-Qualifying Lender or the proposed Permitted Non-Qualifying Lender), confirming to the Issuer’s satisfaction that such proposed Permitted Non-Qualifying Lender does constitute one (1) person only for purposes of the Non-Bank Rules; and
 - (b) the Issuer, acting reasonably, shall confirm within ten (10) Business Days of notification of all facts (if a request in accordance with paragraph (A)(a)(i) above has been made) or receipt of a tax ruling (if a request in accordance with paragraph (A)(a)(ii) above has been made) whether or not such disclosure, or such tax ruling, as the case may be, is satisfactory and, in the absence of such confirmation, the Issuer shall be deemed to have confirmed such disclosure, or such tax ruling, as the case may be, is so satisfactory on the tenth (10th) Business Day after receipt hereof or thereof; and
 - (B) has, simultaneously with becoming a Noteholder, succeeded the existing Permitted Non-Qualifying Lender as “Permitted Non-Qualifying Lender” under all, but not some only, Restricted Capital Notes of the respective Series and under any and all other existing or future Series of Restricted Capital Notes, or similar instruments, between the Issuer and the existing Permitted Non-Qualifying Lender (or any successor thereof).

“Permitted Non-Qualifying Lenders” means in respect of a Series of Restricted Capital Notes the number of Permitted Non-Qualifying Lenders specified in the applicable Final Terms.

“Qualifying Bank” means a person or entity which effectively conducts banking activities with its own infrastructure and staff as its principal business purpose and which has a banking licence in full force and effect issued in accordance with the banking laws in force in its jurisdiction of incorporation, or if acting through a branch, issued in accordance with the banking laws in the jurisdiction of such branch.

“Qualifying Lender” means a Noteholder which is a Qualifying Bank or a Permitted Non-Qualifying Lender.

“Relevant Date” means whichever is the later of the date on which the payment in question first becomes due and, if the full amount payable has not been received by the Agent on or prior to that due date, the date on which notice of receipt of the full amount has been given to the Noteholders in accordance with Condition 13.

“Restricted Capital Notes” means Capital Notes issued in accordance with Conditions 10(j) and 10(k).

“Tax Deduction” has the meaning set out in Condition 4(e).

“Ten Non-Bank Rule” means the rule that the aggregate number of Noteholders under a Series of Restricted Capital Notes which are not Qualifying Banks must not at any time exceed ten, in each case in accordance with the meaning of the Guidelines.

“Twenty Non-Bank Rule” means the rule that the aggregate number of the Issuer’s lenders (including Noteholders), other than Qualifying Banks, under all outstanding debts relevant for classification as debenture (*Kassenobligation*), such as intra-Group loans, facilities and/or private placements (including under Restricted Capital Notes and Capital Notes not classified as a taxable bond (*Anleiheobligation*)) must not at any time exceed twenty, in each case in accordance with the meaning of the Guidelines.

8. Prescription

The Capital Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5(b) or any Talon which would be void pursuant to Condition 5(b).

The Luxembourg Act dated 3 September 1996 on the involuntary dispossession of bearer securities, as amended, requires that any amount that is payable under the Bearer Notes (if any) before opposition (if applicable) in relation to the Bearer Notes has been filed but not yet been paid to the holder of the Bearer Notes is paid to the *Caisse de Consignation* in Luxembourg until the opposition has been withdrawn or has elapsed.

9. Dissolution Event

(a) Dissolution Event

The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent in nominal amount of the Capital Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders shall (but, in each case, subject to the Trustee having been indemnified and/or secured to its satisfaction), give notice to the Issuer that the Capital Notes are immediately due and repayable at an amount equal to the principal amount of such Capital Note together with, unless otherwise specified in the applicable Final Terms, accrued interest and, in the case of Capital Notes which are specified in the applicable Final Terms as being Cumulative, any applicable Deferred Interest if the following event (**“Dissolution Event”**) shall have occurred: a resolution is passed or an order of a court of competent jurisdiction is made that the Issuer be wound up or dissolved otherwise than for the purpose of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction the terms of which shall have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Noteholders or as a result of a Permitted Reorganisation (a **“Dissolution Event”**).

(b) Proceedings for Winding-up

If the Capital Notes become due and repayable (whether pursuant to Condition 9(a), Condition 6 or otherwise) and are not paid when so due and repayable, the Trustee may at its discretion institute proceedings for the winding-up of the Issuer but may take no further action to enforce the obligations of the Issuer for payment of any principal or interest (including, in the case of Capital Notes which are specified in the applicable Final Terms as being Cumulative, applicable Deferred Interest, if any) in respect of the Capital Notes.

No payment in respect of the Capital Notes may be made by the Issuer pursuant to Condition 9(a), nor will the Trustee accept the same, otherwise than during or after a winding-up of the Issuer.

(c) Enforcement

Without prejudice to Condition 9(a) or 9(b) above and, in the case of Restricted Capital Notes, subject to Conditions 10(j) and 10(k), the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Trust Deed, the Capital Notes or the Coupons (other than any obligation for the payment of any principal or interest in respect of the Capital Notes or the Coupons) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

(d) Rights of Noteholders

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or to prove in the winding-up of the Issuer unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholders, Receiptholders or Couponholders shall have only such rights against the Issuer as those which the Trustee is entitled to exercise.

(e) Extent of Noteholders' Remedy

No remedy against the Issuer other than as referred to in this Condition 9, shall be available to the Trustee or the Noteholders, Receiptholders or Couponholders, whether for the recovery of amounts owing in respect of the Capital Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Capital Notes or under the Trust Deed.

In this Condition: **"Permitted Reorganisation"** means an amalgamation, merger, consolidation, reorganisation or other similar arrangement entered into by the Issuer under which:

- (a) the whole or a substantial part of the business, undertaking and assets of the Issuer are transferred to, and all the liabilities and obligations of the Issuer are assumed by, the new or surviving entity either:
 - (A) automatically by operation of applicable law; or
 - (B) by means of the new or surviving entity assuming all of the obligations of the Issuer under the terms of the Trust Deed and the Notes and as fully as if (and to the same extent in terms of ranking in a winding-up) it had been named in the Trust Deed and the Notes in place of the Issuer, and,
- (b) the new or surviving entity will immediately after such amalgamation, merger, consolidation, reorganisation or other similar arrangement be subject to the same regulation and supervision by the same regulatory authority (if any) as the Issuer was subject to immediately prior thereto.

10. Exchange of Capital Notes, transfer of Registered Global Notes, interests in Reg. S Notes, Individual Registered Notes and Replacement of Notes, Receipts, Coupons and Talons

(a) Exchange of Bearer Notes for Registered Notes

If so specified in the applicable Final Terms, a Bearer Note in definitive form may be exchanged for Registered Notes of like aggregate nominal amount (in individual registered form) by submission of a duly completed request for exchange substantially in the form provided in the Agency Agreement (an **"Exchange Request"**), copies of which are available from the specified office of the Registrar or any Transfer Agent, together with the Definitive Bearer Note and all unmatured Coupons, Talons and Receipts appertaining thereto, to a Transfer Agent at its specified office. Within five business days (being for this purpose, a day on which commercial banks and foreign exchange markets are open for business in the jurisdiction of the relevant Transfer Agent) of the request, in relation to Individual Registered Notes for which the Definitive Bearer Note is to be exchanged, the relevant Transfer Agent will authenticate and deliver, or procure the authentication and delivery of, at its specified office to the holder or (at the risk of the holder) send by mail to such address as may be specified by the holder in the Exchange Request, the Individual Registered Note(s)

of a like aggregate nominal amount to the Definitive Bearer Note(s) exchanged and will enter the exchange of the Definitive Bearer Note(s) in the Register maintained by the Registrar as of the date which is 40 days after the date on which any Temporary Global Note is issued (the **“Exchange Date”**).

Exchange Requests may not be presented on or after the Record Date (as defined in Condition 5(b)) in respect of any Interest Payment Date up to and including such Interest Payment Date. Interest on Individual Registered Notes issued on exchange will accrue as from the immediately preceding Interest Payment Date, as the case may be. No exchanges of Bearer Notes for Registered Notes or interests in Registered Global Notes will be permitted for so long as the Bearer Notes are represented by a Temporary Global Note.

(b) Exchange of interests in Registered Global Notes for Individual Registered Notes

Interests in the Reg. S Global Note will be exchangeable for Individual Registered Notes in the following limited circumstances: (i) if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces its intention permanently to cease business or does in fact do so and no alternative clearance system acceptable to the Trustee is available or (ii) the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of Noteholders under the Capital Notes represented by such Registered Global Note, and the Trustee has been advised by counsel that in connection with such proceedings it is necessary or appropriate for the Trustee to obtain possession of Individual Registered Notes representing the Registered Global Note. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause the appropriate Individual Registered Notes to be delivered, provided that notwithstanding the above, no Individual Registered Notes will be issued until expiry of the applicable Distribution Compliance Period.

(c) Transfers of Registered Global Notes

Transfers of a Registered Global Note shall be limited to transfers of such Registered Global Note, in whole but not in part, to a nominee of Euroclear or Clearstream, Luxembourg or to a successor of any of them or such successor’s nominee.

(d) Transfers of interests in Reg. S Notes

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of an interest in, a Reg. S Note to a transferee in the United States will only be made pursuant to the US Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of US counsel, that such transfer is in compliance with any applicable securities laws of any state of the United States, and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

After expiry of the applicable Distribution Compliance Period such certification requirements will no longer apply to such transfers.

(e) Exchanges and transfers of Registered Notes generally

Registered Notes may not be exchanged for Bearer Notes.

Transfers of interests in Reg. S Global Notes will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. An interest in a Reg. S Global Note will be transferable and exchangeable for Individual Registered Notes or for an interest in another Reg. S Global Note only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg (the **“Applicable Procedures”**).

Upon the terms and subject to the conditions set forth in the Agency Agreement, an Individual Registered Note may be transferred in whole or in part (in the authorised Denominations set out in the applicable Final Terms) by the holder or holders surrendering the Individual Registered Note for registration of the transfer of the Individual Registered Note (or the relevant part of the Individual Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and upon the Registrar or, as the case may be, the relevant Transfer Agent, after due and careful enquiry, being satisfied with the documents of title and the identity of the person making the request and subject to such reasonable regulations as the Issuer and the Registrar, or as the case may be, the relevant Transfer Agent may with the prior approval of the Trustee prescribe, including any restrictions imposed by the Issuer on transfers of Registered Notes in individual form originally sold to a US person. Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within five business days (being for this purpose a day on which banks are open for business in the

city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Individual Registered Note of a like aggregate nominal amount to the Registered Note (or the relevant part of the Individual Registered Note) transferred. In the case of the transfer of part only of an Individual Registered Note, a new Individual Registered Note in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

Exchanges or transfers by a holder of an Individual Registered Note for an interest in, or to a person who takes delivery of such Individual Registered Note through, a Reg. S Global Note will be made no later than 60 days after the receipt by the Registrar or, as the case may be, the relevant Transfer Agent of the Individual Registered Note to be so exchanged or transferred and, if applicable, upon receipt by the Registrar of a written certification from the transferor.

(f) Registration of transfer upon partial redemption

In the event of a partial redemption of Capital Notes under Condition 6(d), the Issuer shall not be required:

- (i) to register the transfer of Registered Notes (or parts of Registered Notes) during the period beginning on the sixty-fifth day before the date of the partial redemption and ending on the date on which notice is given specifying the serial numbers of Capital Notes called (in whole or in part) for redemption (both inclusive); or
- (ii) to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(g) Closed periods

No Noteholder may require the transfer of a Registered Note to be registered during the period of 30 days ending on the due date for any payment of principal or interest on that Capital Note.

(h) Costs of exchange or registration

The transfer of a Capital Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require from the Noteholder in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) Replacement of Capital Notes, Receipts, Coupons and Talons

Should any Capital Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent, in the case of a Bearer Note, Receipt or Coupon, or the Registrar, in the case of an Individual Registered Note, or any other place approved by the Trustee of which notice shall have been published in accordance with Condition 13, upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Capital Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

(j) Restrictions on Transfer of Certain Capital Notes

- (i) If the applicable Final Terms designate the Capital Notes as Restricted Capital Notes, (but not otherwise) the provisions of this Condition 10(j) shall apply and the Restricted Capital Notes will be issued as Registered Notes and may only be assigned or transferred, including upon an enforcement of a security, (a “**Transfer**” and “**Transferred**” shall be construed accordingly):
 - (a) in whole or in part, if the Transfer is to a Qualifying Bank, provided that in the case of a Transfer of the Restricted Capital Notes in part, the Restricted Capital Notes may not be transferred to more than the number of Qualifying Banks specified in the applicable Final Terms, or
 - (b) in whole, but not in part (except for parts of Restricted Capital Notes held by Qualifying Banks at the time), if the Transfer is to a Permitted Non-Qualifying Lender,

provided that no Transfer under this Condition 10(j) may result in more Permitted Non-Qualifying Lenders being Noteholders than as specified in the applicable Final Terms.

The Restricted Capital Notes will bear a legend setting forth the applicable transfer restrictions provided for in this Condition 10(j).

- (ii) A Noteholder may at any time require that the Issuer replaces such Noteholder's certificate(s) representing the Restricted Capital Notes with certificates in minimum denominations equal to the Restricted Capital Note Minimum Denomination Amount specified in the applicable Final Terms.
- (iii) Restricted Capital Notes may only be Transferred in amounts equal to the Restricted Capital Note Transfer Amount specified in the applicable Final Terms.
- (iv) Any Transfer of a Restricted Capital Note shall be recorded by the Registrar in the Register on production of:
 - (a) the relevant certificate representing the Restricted Capital Note and certification delivered to the Registrar by the transferee to the effect that it is a Qualifying Bank or Permitted Non-Qualifying Lender; and
 - (b) such other evidence as the Issuer may require.
- (v) Subject to this Condition 10(j), no Noteholder shall at any time enter into any arrangement with another person under which such Noteholder transfers all or part of its interest in the Restricted Capital Notes to that other person, unless under such arrangement throughout the life of such arrangement:
 - (a) the relationship between the Noteholder and that other person is that of debtor and creditor (including in the bankruptcy or similar event of that Noteholder or the Issuer),
 - (b) the other person will have no proprietary interest in the benefit of the Restricted Capital Notes or in any monies received by the Noteholder under or in relation to the Restricted Capital Notes held by that Noteholder, and
 - (c) the other person will under no circumstances (other than by way of permitted Transfer under this Condition 10(j) be subrogated to, or substituted in respect of, the Noteholder's claims under its Capital Notes, and otherwise have any contractual relationship with, or rights against, the Issuer under or in relation to the Restricted Capital Notes.

For the avoidance of doubt, the granting of security in accordance with Condition 10(k) shall not constitute a transfer of an exposure under the Restricted Capital Notes for the purposes of this Condition 10(j).

- (vi) As of the Issue Date and for so long as the Restricted Capital Notes are outstanding, the Issuer will ensure that it is in compliance with the Non-Bank Rules, provided that the Issuer will not be in breach if either of the Non-Bank Rules are exceeded solely by the failure by one or more Noteholders to comply with the limitations set forth in this Condition 10(j) or in Condition 10(k).

(k) Grants of Security

If the applicable Final Terms provide that the Capital Notes are Restricted Capital Notes then the following provisions of this Condition 10(k) shall apply but not otherwise. Any Noteholder may, without the consent of the Issuer, at any time charge or create a security interest in all or any portion of its rights under any Restricted Capital Notes to secure obligations of such Noteholder; provided that:

- (i) no such charge or creation of a security interest shall:
 - (a) substitute any such chargee or holder of the benefit of such security interest for such Noteholder as Noteholder except in accordance with the provisions of Condition 10(j); or
 - (b) require any payments to be made by the Issuer other than as required by the Restricted Capital Notes. A copy of any notice of charge or creation of security interest as envisaged in this paragraph shall be delivered to the Agent and the Agent shall not be obliged to take any action in regard to such notice; and

- (ii) such charge or security interest shall in each case provide that upon any assignment or transfer of the interest in the Restricted Capital Notes or enforcement of such charge or security interest, any resulting assignment or transfer shall be in accordance with Condition 10(j); and
- (iii) the Noteholder promptly notifies the Registrar of any such charge or security interest and the secured party's identity and status by delivering to the Registrar a notification to such effect.

11. Agent, Paying Agents, Transfer Agents and Registrar

The names of the initial Agent, the other initial Paying Agents, the initial Registrar and the initial Transfer Agents and their initial specified offices are set out below.

The Issuer is, with the prior written approval of the Trustee (such approval not to be unreasonably withheld), entitled to vary or terminate the appointment of any Paying Agent, Registrar or Transfer Agent and/or appoint additional or other Paying Agents, Registrars or Transfer Agents and/or approve any change in the specified office through which any Paying Agent, Registrar or Transfer Agent acts, provided that:

- (i) so long as the Capital Notes are listed on any stock exchange, there will at all times be a Paying Agent and a Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange;
- (ii) there will at all times be a Paying Agent with a specified office in a city approved by the Trustee in continental Europe;
- (iii) there will at all times be an Agent and a Registrar;
- (iv) there will at all times be a Transfer Agent having a specified office in a place approved by the Trustee; and
- (v) the Issuer undertake that they will ensure that they maintain a Paying Agent and a Registrar in an EU member state (if any) that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the penultimate paragraph of Condition 5(b). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 13.

Notwithstanding the foregoing, the Issuer will in respect of any Listed Swiss Franc Capital Notes at all times maintain a Principal Paying Agent having a specified office in Switzerland and will at no time maintain a Paying Agent having a specified office outside Switzerland, unless permitted by applicable law.

12. Exchange of Talons

On and after the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Note to which it appertains) a further Talon, subject to the provisions of Condition 8. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Interest Payment Date (as the case may be) on which the final Coupon of the relative Coupon sheet matures.

13. Notices

All notices regarding the Bearer Notes shall be published (i) in a leading English language daily newspaper of general circulation in London, (ii) if and for so long as such Bearer Notes are admitted to trading on the regulated market of the Luxembourg Stock Exchange, on the website of the Luxembourg Stock Exchange (www.bourse.lu), (iii) (in the case of Listed Swiss Franc Capital Notes) in a leading newspaper of general circulation in Switzerland which is expected to be the *Feuille Officielle Suisse du Commerce* and in a daily newspaper in each of Zurich and Geneva. It is expected that such publication will be made (in the case of (i) above) in the *Financial Times* in London or any other daily newspaper in London approved by the Trustee or, if this is not possible, in another

English language daily newspaper approved by the Trustee with general circulation in Europe and on the website of the Luxembourg Stock Exchange (www.bourse.lu). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange, listing authority and/or quotation system by which the Capital Notes are for the time being admitted to listing, trading and/or quotation. To the extent required by Luxembourg law, notices shall also be published in the *Mémorial C, Recueil des Sociétés et Associations* (“**Mémorial C**”). If and to the extent required by the Luxembourg law of 11 January 2008 relating to transparency obligations of issuers of securities implementing Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC, notices will also be published in accordance with the provisions of such law and implementing provisions. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the first date on which publication in all the required newspapers has been made. If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve. Receiptholders and Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the relative Noteholders in accordance with this Condition.

All notices to holders of Registered Notes will be valid if sent by first-class mail or (if posted to an overseas address) by air-mail to their registered addresses appearing on the Register. Any such notice shall be deemed to have been given on the fourth day after the day on which it is mailed. If and for so long as the relevant Registered Notes are admitted to trading on the regulated market of the Luxembourg Stock Exchange, all notices regarding Registered Notes shall be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Until such time as any definitive Notes are issued, there may, so long as the global Note(s) is or are held in its/their entirety on behalf of Euroclear and Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the holders of the Capital Notes and in addition, for so long as any Capital Notes are listed on the Luxembourg Stock Exchange, a notice will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). Any such notice shall be deemed to have been given to the holders of the Capital Notes on the seventh day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

Notices to be given by any holder of the Capital Notes shall be in writing and given by lodging the same, together with the relative Capital Note or Capital Notes, with the Agent. Whilst any of the Capital Notes are represented by a Global Note, such notice may be given by any holder of a Capital Note to the Agent and/or the Registrar via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and/or the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

14. Meetings of Noteholders, Modification and Waiver, Entitlement of Trustee, Substitution, Change and Indemnification of Trustee

(a) Single Noteholder

In relation to any Restricted Capital Notes so long as there is only one Noteholder thereof, who shall certify to the Trustee that it is the sole Noteholder of the Capital Notes and is not holding such Notes as a depository for, or nominee of, Euroclear, Clearstream, Luxembourg on or prior to any such amendment, waiver or variation being made (i) no amendment, waiver or variation of the Capital Notes or the Trust Deed may be made without the prior written consent of such Noteholder and parties to the Trust Deed and (ii) the meeting, quorum and voting provisions of Condition 14(b) shall not apply.

(b) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of such Capital Notes, the relative Receipts, the relative Coupons or any relevant provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Trustee or at the request of Noteholders holding not less than 10 per cent in nominal amount of the Capital Notes for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent in nominal amount of the Capital Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Capital Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Trust Deed, the Capital Notes, Receipts or Coupons (including modifying the dates for redemption of the Capital Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Capital Notes, varying the method of calculating the rate of interest on the Capital Notes or altering the currency of payment of the Capital Notes, Receipts or Coupons, varying, amending or granting a waiver

in relation to Condition 2, 3, 4, 5 or 6, modifying the provisions concerning the quorum required at any meeting of the Noteholders or the majority required to pass an Extraordinary Resolution or modifying the percentage required to pass any resolution), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Capital Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third, in nominal amount of the Capital Notes for the time being outstanding. An Extraordinary Resolution duly passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on the relevant Receiptholders and the relevant Couponholders. The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 100 per cent in nominal amount of Capital Notes outstanding shall be as valid and effective as a duly passed Extraordinary Resolution. The provisions for convening meetings of Noteholders contained in the Trust Deed shall not apply to Listed Swiss Franc Capital Notes.

The provisions of Articles 1157-1186 of the Swiss Code of Obligations will apply to all meetings of holders of Capital Notes.

(c) Modification and Waiver

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification (subject to certain exceptions as provided in the Trust Deed) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed, which in any such case, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or to any modification of any of these Terms and Conditions of the Capital Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed which is of a formal, minor or technical nature or which is made to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders, Receiptholders and Couponholders and, unless the Trustee agrees otherwise, any such modification, waiver, authorisation or determination shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

(d) Powers and Discretions

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders except, in the case of the Issuer, to the extent provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

The Trust Deed contains provisions permitting the Trustee to agree, without the consent of the Noteholders, the Receiptholders or the Couponholders, to the substitution at any time or times of the Issuer as the principal debtor under the Trust Deed and the Capital Notes, Receipts and Coupons. The Issuer may at any time with the agreement of the Trustee as aforesaid, without the consent or approval of the Noteholders, substitute for itself as principal debtor under the Capital Notes a successor in business to the Issuer or such substitute, being a duly licensed and regulated entity that carries on the business of an insurance company within the Zurich Financial Services Group (a **“Successor Issuer”**).

The Issuer may only transfer its obligations under the Capital Notes if (i) the rating assigned by both Moody’s Investors Service, Inc. (**“Moody’s”**) and Standard & Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc. (**“S&P”**) or its successor to the transferee’s senior unsecured debt is equal to or higher than the senior unsecured debt rating of the Issuer immediately after such transfer (it being understood that if such senior unsecured debt is rated by only one of Moody’s or S&P or their respective successors immediately prior to such transfer, then only the then existing rating must be equal to or higher than the corresponding ratings immediately after such transfer) and the transferee is an affiliate of ZFS and is engaged in the same line of business that the Group is engaged on the date of such transfer or (ii) the transfer is approved by the holders of the Capital Notes in the manner set out in Condition 14(a) above, provided that the foregoing shall not preclude the Issuer from transferring its obligations under the Capital Notes where such transfer is pursuant to the transfer of substantially all of the Issuer’s assets and obligations to another entity pursuant to any merger, consolidation or corporate reorganisation or by operation of law in which case neither the rating condition nor the approval of the holders of the Capital Notes will be required.

Notwithstanding the above, by subscribing to or purchasing the Capital Notes, the Noteholders expressly consent to the substitution of the Issuer on the conditions referred to above and expressly consent to the release of the Issuer from any and all obligations in respect of the Capital Notes and are deemed to have expressly accepted such substitution. Such agreement shall be subject to the relevant provisions of the Trust Deed.

The Trust Deed contains general provisions for the retirement and removal of the Trustee and the appointment by the Issuer of a substitute issuer which has previously been approved by the Trustee.

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.

15. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Capital Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Capital Notes.

16. Governing Law and Submission to Jurisdiction

- (a) The Trust Deed (other than the provisions relating therein to subordination which shall be governed by, and construed in accordance with, the laws of Switzerland), the Capital Notes (other than the provisions of Condition 2 which shall be governed by, and construed in accordance with, the laws of Switzerland), the Receipts and the Coupons and any non- contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) The Issuer has agreed in the Trust Deed, for the exclusive benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Capital Notes, the Receipts and/or the Coupons and that accordingly any suit, action or proceedings (together referred to as "Proceedings") arising out of or in connection with the Capital Notes, the Receipts and the Coupons may be brought in such courts.
- (c) The Issuer has irrevocably waived in the Trust Deed any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum.
- (d) Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.
- (e) The Issuer has appointed Zurich Insurance Company Ltd, UK branch at its registered office for the time being as its agent for service of process in respect of any Proceedings in England and has undertaken in the Trust Deed that, in the event of Zurich Insurance Company Ltd, UK branch ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings in England.
- (f) Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.
- (g) In respect of Listed Swiss Franc Capital Notes only, the Issuer and the Trustee have agreed in the Trust Deed for the benefit of the Noteholders, the Receiptholders and the Couponholders to the additional jurisdiction of the Commercial Court of the Canton of Zurich, the place of jurisdiction being Zurich, with the right of appeal, where the law permits, to the Swiss Federal Court of Justice in Lausanne, the decision of which shall be final.

17. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Capital Note or the Trust Deed under the United Kingdom Contracts (Rights of Third Parties) Act 1999.

Use of Proceeds

The net proceeds from each issue of Notes by ZF (Luxembourg) and ZF (USA) will be used outside Switzerland either to refinance existing debt of the Zurich Insurance Group or, alternatively, for general corporate purposes.

The net proceeds from each issue of Notes and Capital Notes by ZIC will be used in Switzerland to refinance existing debt of ZIC or, alternatively, for general corporate purposes.

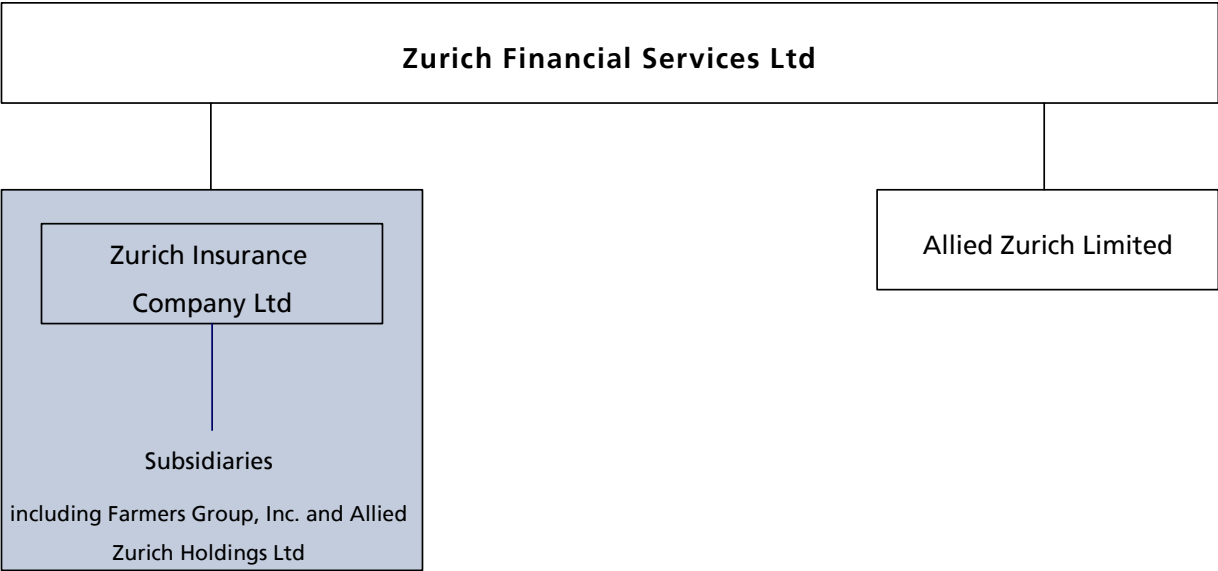
The net proceeds from each issue of Notes by ZF (UK) will be used outside Switzerland either to refinance existing debt of the ZFS Group or, alternatively, for general corporate purposes. Reference to the “**ZFS Group**” shall mean ZFS, together with all of its subsidiaries.


The net proceeds from each issue of Notes by Zurich Bank will be used outside Switzerland either to refinance existing debt of the Bank or, alternatively, for general corporate purposes.

Zurich Insurance Company Ltd

GENERAL INFORMATION

Overview of the Zurich Financial Services Group structure



 Zurich Insurance Group

Zurich Insurance Company Ltd

ZIC is a public limited liability company (*Aktiengesellschaft*) founded for an unlimited duration and operating under the Swiss Code of Obligations and Swiss insurance law and regulation and incorporated in the commercial register of the Canton of Zurich, Switzerland on 16 July 1884. Its registered office is at Mythenquai 2, CH-8002 Zurich, Switzerland (telephone: +41 44 625 25 25) and its registered number is CH-020.3.929.583-0. The articles of incorporation of ZIC date from 6 April 2009. The purpose of ZIC is to conduct all kinds of insurance and reinsurance businesses, except for direct life insurance business. The fiscal year of ZIC begins on 1 January and terminates on 31 December of each year.

ZIC has a dual function, firstly as an insurer, operating through branch offices in Switzerland and other countries, and secondly as a holding company. ZIC and its subsidiaries (collectively the “**Zurich Insurance Group**” or “**ZIG**”) are an insurance-based financial services provider with a global network of subsidiaries and offices in North America and Europe as well as Asia Pacific, Latin America and other markets. Key markets of ZIG are the United States and Europe, in particular the United Kingdom, Germany, Switzerland, Ireland, Italy and Spain. Its core businesses are general and life insurance. ZIG provides insurance and risk management solutions and services for individuals, small and medium-sized businesses and major global companies. It also distributes third-party financial services products.

ZIC is owned by ZFS, the ultimate parent company of the ZFS Group. ZFS is a public limited liability company (*Aktiengesellschaft*) under Swiss Law and is incorporated in Zurich, Switzerland. Its registered office is at Mythenquai 2, CH-8002 Zurich, Switzerland. ZFS has a listing on the SIX Swiss Exchange.

Share Information

The share capital of ZIC amounts to CHF 825,000,000, divided into 82,500,000 fully paid-up registered shares with a par value of CHF 10 each. The transfer of shares is subject to the board of directors’ consent. The board of directors may further delegate such consent.

In 2009 ZIG paid no dividend, in 2008 it paid a dividend of CHF 1.9 billion and in 2007 it paid a dividend of CHF 1.3 billion. It did not pay any dividends in the years 2005 and 2006.

Notices

Notices are given by ZIG by publication in the Swiss Official Commercial Gazette (*Schweizerisches Handelsamtsblatt*). Notices to shareholders are given by ZIG by ordinary mail to the addresses registered in the share register unless otherwise provided by law or the articles of incorporation of ZIG.

Business and Strategy

ZIG aspires to become a leading global insurance group in its chosen general insurance and life insurance markets. ZIG has transformed to deliver critical business requirements and is focusing on sustaining profitability driven by The Zurich Way™ of doing business. As an insurance-based financial services provider, ZIG provides general and life insurance products primarily in the markets of the United States, the United Kingdom and Continental Europe, particularly Germany, Switzerland, Italy and Spain, while maintaining a strong international network with activities in Latin America, Asia/Pacific and Africa.

The Segments

ZIG is managed on a matrix basis, reflecting both lines of business and geography. Accordingly, segment information is presented in two formats. The primary format is based on the operating businesses of ZIG and how they are strategically managed to offer different products and services to specific customer groups. Starting 1 January 2009, ZIG's primary reportable segments were as follows:

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

Global Life pursues a customer-focused 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 FGI non-claims related management services to the Farmers Exchanges. FGI receives fee income for the provision of services to the Farmers Exchanges, which ZIG manages but does not own, and to their customers. This segment also includes the Farmers Re business, which includes all reinsurance assumed from the Farmers Exchanges by ZIG. Farmers Exchanges are prominent writers of personal lines and small commercial lines business in the United States.

For purposes of discussing ZIG's financial performance, General Insurance, Global Life and Farmers' are considered its core operating segments.

Other Operating Businesses predominantly consist of the ZIG Corporate Center and Holding and Financing activities. In addition, certain alternative investment positions not allocated to core operating segments are carried in this segment.

Non-Core Businesses represent insurance businesses that ZIG is not considering core operating and that are therefore mostly managed to achieve a beneficial run-off.

ZIG Key Segmental Information

Audited consolidated figures of ZIG

in USD millions, as reported for the year ended 31 December 2009	Gross written premiums and policy fees	Total BOP revenues	Net income/(loss) before income taxes
General Insurance	34,157	33,113	2,545
Global Life.....	12,440	28,261	1,318
Farmers	6,615	8,672	1,470
Other Operating Businesses	142	1,682	(909)
Non-Core Businesses.....	700	2,042	(97)
Total Zurich Insurance Group(*)	53,817	71,682	4,328

* The Total Zurich Insurance Group information is presented after elimination of the inter-segment transactions, and as such does not reflect the sum of segment figures.

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

Americas

Europe & Africa

Asia Pacific & Middle East

Central Region

ZIG Key Financial Information

	As at or for the year ended 31 December 2009 (audited)	As at or for the year ended 31 December 2008-as restated (unaudited)	Reclassifications (unaudited)	As at or for the year ended 31 December 2008-as previously reported (audited)
in USD millions				
Gross written premiums and policy fees	53,817	51,894	—	51,894
Net written premiums and policy fees	47,973	45,667	—	45,667
Net investment result on ZIG investments	5,945	5,822	(28)	5,850
Net income before income taxes	4,328	2,511	—	2,511
Net income after taxes attributable to shareholders	2,985	2,927	—	2,927
Total investments	295,110	258,538	—	258,538
Reserves for insurance contracts	241,412	222,179	—	222,179
Total shareholders' equity	27,343	18,100	—	18,100

Subsequent Events

Change in accounting policy

Subsequent to year end ZIG decided to dynamically hedge the risks associated with its closed US 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, ZIG 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 US 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, figures from prior year will be restated to ensure comparability. The major restatement impacts on the financial information 2009 will be a decrease in the equity as of 1 January 2009 by USD 1,241 million, an increase in the 2009 net income after tax of USD 747 million and a decrease in shareholders' equity as of 31 December 2009 of USD 374 million. Business Operating Profit ("BOP") will not be restated, as the business was not managed on a fair value basis in 2009, 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 would it provide comparability with the previous period.

Earthquake in Chile

Based on preliminary estimates, ZIG expects the ultimate costs related to the earthquake in Chile to amount to approximately USD 200 million before tax. This figure is net of reinsurance recoverables and includes reinsurance reinstatement premiums. The earthquake hit Chile on 27 February 2010, affecting large areas including Santiago de Chile and Concepción, two of the three largest cities of the country. While the amount represents ZIG's best estimate of the ultimate cost for the event, the nature of many of the losses and the extended remediation period to complete repairs means that the final cost remains uncertain.

Other significant transactions

On 21 July 2009, Caixa d'Estalvis de Sabadell (“**Caixa Sabadell**”), a savings bank based in Spain with which ZIG entered into bank distribution agreements for the Spanish market in 2008, announced that it was developing plans for a merger between itself and two other Spanish savings banks. On 14 April 2010, Caixa Sabadell announced that the general assemblies of the three banks will meet on 17 May 2010 to propose the definitive merger approval. ZIG is reviewing the potential impact on its distribution agreements with Caixa Sabadell and its options resulting from such a merger.

On 15 February 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, of which ZIG owned 73.6 per cent, by 15.1 per cent from 10.0 per cent to 25.1 per cent with option rights to increase up to 51 per cent or sell the entire stake back to ZIG. To appropriately reflect the nature of the put and the call options on the shares, ZIG will reclassify the 25.1 per cent non-controlling interest of RBF as a liability measured at fair value.

Amendments to and implementation of new accounting standards

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

IFRS 3 “Business Combinations” revised

Amendments to IAS 27 “Consolidated and Separate Financial Statements”

Amendments to IAS 39 “Financial Instruments: Recognition and Measurements - Eligible Hedged Items”

Amendments to IFRS 2 “Share-based Payment - Group Cash-settled Share-based Payment Transactions”

Several minor amendments as part of the IASB's annual improvement project including 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”

IFRIC 17 “Distributions of Non-cash Assets to Owners”

IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”

ZIG has not exercised its right to early adopt the following standards:

Amendments to IAS 32 “Financial Instruments: Presentation – Classification of Rights Issues” effective for reporting periods beginning on or after 1 February 2010

Amendments to IAS 24 “Related Party Disclosures” effective for reporting periods beginning on or after 1 January 2011

IFRS 9 “Financial Instruments” effective for reporting periods beginning on or after 1 January 2013

Appropriation of Available Earnings

On 30 March 2010, the annual general meeting of ZIG approved the carrying forward of all available earnings as of 31 December 2009 amounting to CHF 3,693,094,428.

Board of Directors of ZIG (as at the date of this Base Prospectus until 30 June 2010)

<u>Name</u>	<u>Nationality</u>	<u>Function</u>	<u>Principal Occupation</u>
Manfred Gentz	German	Non-executive Chairman	Chairman of the German Stock Exchange (Deutsche Börse AG). He is also a member of the executive board of the International Chamber of Commerce, Germany, and active in a number of scientific and cultural institutions, among others, he chairs the curatorship of the Technische Universität Berlin.
Josef Ackermann.....	Swiss	Non-executive Vice-Chairman	Chairman of the board and chairman of the Group Executive Committee of Deutsche Bank AG, Germany. A member of

Susan Bies.....	American	Non-executive director	the supervisory boards of Siemens AG, Germany, of Royal Dutch Shell plc, Holland and of Belenos Clean Power Holding Ltd, Biel. He is a member of the International Advisory Council of Zurich Financial Services Group, and also plays an active role, among many other things, in the Initiative Finanzstandort Deutschland.
Victor L.L. Chu.....	British	Non-executive director	Former member of the Board of Governors of the Federal Reserve System of US Securities Exchange Commission's advisory committee on improving financial reporting and chairman of its substantive complexity sub-committee and of the Emerging Issues Task Force of the Financial Accounting Standards Board. Former chief financial officer and chairman of the asset/liability committee and chairman of the executive risk management committee of First Tennessee National Corporation in Memphis. Member of the board of directors of The Bank of America Corporation. Chairman of First Eastern Investment Group and of First Eastern Investment Bank Limited and of FE Securities Limited. Executive board member of the International Chamber of Commerce and chair of its Commission on Financial Services and Insurance foundation board member of the World Economic Forum and co-chair of the Forum's International Business Council. Former director and council member of the Hong Kong Stock Exchange and former member of the Hong Kong Securities and Future Commission's advisory committee.
Thomas Escher.....	Swiss	Non-executive director	Vice chairman in the Business Group Global Wealth Management & Business Banking of UBS AG, Switzerland. Member of the board of the Greater Zurich Area Foundation.
Fred Kindle	Swiss	Non-executive director	Partner of CD&R, a private equity firm based in New York and London. He serves as a chairman of Exova Ltd., Scotland and as a director of Rexel SA, France. Also serves on the boards of VZ Holding Ltd., Zurich, and of Stadler Rail AG, Bussnang, Switzerland.
Armin Meyer.....	Swiss	Non-executive director	He was chairman and chief executive officer of Ciba Specialty Chemicals Inc., Basel, Switzerland. Member of the executive committee and the foundation board of the International Institute for Management Development (IMD) in Lausanne, Switzerland.
Don Nicolaisen	American	Non-executive director	Member of the board of Verizon Communications Inc., Morgan Stanley and MGIC Investment Corporation. Former chief accountant of the US Securities and Exchange Commission. He is on the board of advisors for the University of Southern California Leventhal School of Accounting.
Vernon Sankey.....	British	Non-executive director	Member of the supervisory board of Atos Origin SA, Paris, and as chairman of Firmenich SA, Geneva. Former chairman of Vividas Group plc. and other board memberships.
Tom de Swaan	Dutch	Non-executive director	Currently serves as non-executive member of the board of GlaxoSmithKline Plc and chairman of its audit committee, as member of the supervisory board of Royal DSM, as vice-chairman of the supervisory board of Royal Ahold, and as chairman of the supervisory board of Van Lanschot NV, the holding company of F. van Lanschot Bankiers. Former member of the managing board of ABN AMRO Bank and other companies. He is also active in non-profit organizations.
Rolf U. Watter.....	Swiss	Non-executive director	Partner and member of the executive board of directors of the law firm Bär & Karrer AG in Zurich. He also serves as non-executive director of Nobel Biocare Holding AG, of Syngenta AG, of UBS Alternative Portfolio AG and of

A.W. Faber-Castell (Holding) AG. He is a part-time professor at the Law School of the University of Zurich and a member of the SIX Admission Board and of its Disclosure Commission of Experts. He also serves as chairman of two charity institutions.

The business address of each member of the Board of Directors is Mythenquai 2, CH-8002 Zurich, Switzerland. All directors are non-executive, independent of management, and have never held an executive position in the ZFS Group. All directors also serve on the Board of Directors of ZFS. As at the date of this Base Prospectus, there are no potential conflicts of interests between the duties of any member of the Board of Directors of ZIC owed to ZIC and their private interests and/or other duties. If a potential conflict arises in the future, it would be subject to the applicable provisions of Swiss company law and the organisational rules of ZIC relating to proceedings at meetings of the Board of Directors.

Executive Board of ZIC (as at the date of this Base Prospectus until 30 June 2010)

<u>Name</u>	<u>Nationality</u>	<u>Function</u>
Martin Senn.....	Swiss	Chief Executive Officer
John Amore.....	American	CEO General Insurance
Annette Court.....	British	CEO Europe General Insurance
Mike Foley.....	American	CEO North America Commercial
Mario Greco.....	Italian	CEO Global Life
Paul N. Hopkins.....	American	Chairman of the Board of Farmers Group, Inc. and CEO Americas
Axel P. Lehmann	Swiss	Group Chief Risk Officer
Cecilia Reyes	Swiss/ Philippine	Chief Investment Officer
Geoffrey (Geoff) Riddell	British	Chairman of Global Corporate and CEO Asia Pacific /Middle East
Dieter Wemmer.....	German	Group Chief Financial Officer
Inga Beale	British	Global Chief Underwriting Officer, Head of Organizational Transformation, and Internal Consulting (iCON)
Yannick Hausmann	Swiss	Group General Counsel
Markus Hongler	Swiss	CEO Western Europe and CEO Zurich Insurance public limited company (ZIP)
Peter Goerke	Swiss	Group Head of Human Resources
Richard P. Kearns	American	Chief Administrative Officer
Michael Markus Paravicini	Swiss	Chief Information Technology Officer
Mario P. Vitale.....	American	CEO Global Corporate
Robert (Bob) F. Woudstra.....	American	CEO Farmers Group, Inc.

Executive Board of ZIC (as of 1 July 2010)

<u>Name</u>	<u>Nationality</u>	<u>Function</u>
Martin Senn.....	Swiss	Chief Executive Officer
John Amore.....	American	Senior Advisor
Mike Foley.....	American	CEO North America Commercial
Mario Greco.....	Italian	CEO General Insurance
Kevin Hogan	American	CEO Global Life
Paul N. Hopkins	American	Chairman of the Board of Farmers Group, Inc. and Regional Chairman of the Americas
Axel P. Lehmann	Swiss	Chief Risk Officer
Cecilia Reyes	Swiss/Philippine	Chief Investment Officer
Geoffrey (Geoff) Riddell	British	Regional Chairman of Asia-Pacific & Middle East
Kristof Terryn	British	Group Head of Operations
Dieter Wemmer.....	German	Chief Financial Officer and Regional Chairman of Europe & Africa
Inga Beale	British	Global Chief Underwriting Officer, Head of Organizational Transformation, and Internal Consulting (iCON)
Yannick Hausmann	Swiss	Group General Counsel
Markus Hongler	Swiss	CEO Western Europe and CEO Zurich Insurance public limited company (ZIP)
Peter Goerke	Swiss	Group Head of Human Resources
Richard P. Kearns	American	Chief Administrative Officer

Michael Markus Paravicini.....	Swiss	Chief Information Technology Officer
Mario P. Vitale.....	American	CEO Global Corporate
Robert (Bob) F. Woudstra.....	American	CEO Farmers Group, Inc.

The new appointments as of July 1, 2010 are still subject to regulatory approval.

The business address of each member of the Board of Directors is Mythenquai 2, CH-8002 Zurich, Switzerland. As at the date of this Base Prospectus, there are no potential conflicts of interests between the duties of any member of the Executive Board of Directors of ZIC owed to ZIC and their private interests and/or other duties. If a potential conflict arises in the future, it would be subject to the applicable provisions of Swiss company law and the organisational rules of ZIC relating to proceedings at meetings of the Board of Directors.

Regulation

ZIC conducts its operations in Switzerland under operating licences for all lines of general insurance business (except railway rolling stock insurance). The operations of ZIC are subject to continued supervision by the Swiss Financial Market Supervisory Authority (FINMA) (“**FINMA**”) based on the Swiss Insurance Supervision Law (“**ISL**”) that came into force on 1 January 2006. Swiss insurance companies must always maintain net assets or funds free of any encumbrances in the amount of the “solvency margin” (Solvency I). Swiss regulation relating to the solvency margin is similar to the European Union (“**EU**”) solvency margin regime (Solvency I). The law introduces risk-based capital requirements (target capital) under the Swiss Solvency Test (“**SST**”), similar to the ongoing Solvency II discussions in the EU. Swiss insurers also have to maintain tied assets that secure all known and estimated liabilities of the insurance company vis-à-vis the insureds arising out of insurance contracts. The law requires Swiss supervised insurance companies and groups to maintain a risk management system appropriate to its business activities and to establish effective internal control systems. It also requires every Swiss insurance company to designate an appointed actuary who has to provide certain reports to management. The law further introduces rules regarding the supervision of insurance groups and insurance conglomerates. These include the requirement to calculate a group solvency margin as well as a group risk based capital based on an internal model. The reporting of intra-group transactions is also required. ZFS has been subjected to conglomerate supervision in a decree of FINMA’s predecessor authority, the Federal Office of Private Insurance (FOPI), of 25 September 2006, which has replaced the decree of 2001.

The different insurance and financial services subsidiaries of the ZFS Group are supervised by their relevant local regulators and may be subject to regulatory restrictions on the amount of dividends, cash loans and advances which can be remitted to ZIC or ZFS respectively.

Legal Proceedings and Regulatory Investigations

Legal Proceedings

The operating subsidiaries of the Zurich Insurance Group are continuously involved in legal proceedings, claims and litigation arising in the ordinary course of their insurance operations, and which are in general the subject of policy claims. These liabilities are taken into account in setting reserves. In addition, certain companies within the Zurich Insurance Group are engaged in the following legal or arbitration proceedings which may have a significant effect on the financial position of the Group.

Zurich Insurance Group intends to defend these legal proceedings, claims and litigations vigorously.

(a) *Fogel Litigation*

The matter of *Benjamin Fogel v. Farmers Group Inc.*, was filed in August 2003 in the Superior Court for Los Angeles, California. Plaintiff alleges breach of fiduciary duty, specifically that the management fees collected by Farmers Group, Inc. and two of its subsidiaries (the three attorneys-in-fact for, respectively, Farmers Insurance Exchange, Fire Insurance Exchange and Truck Insurance Exchange) from 1999 to present should be refunded to insureds (i) to the extent they are excessive, respecting all insureds and (ii) in full, to all insureds who did not sign a subscription agreement appointing the subject attorney-in-fact.

Summary judgment was granted to the Farmers entities on 7 February 2005, and the plaintiff appealed. In March 2008, the Court of Appeal reversed the grant of summary judgment to Farmers Group, Inc. but held that even insureds who did not sign a subscription agreement must pay a reasonable management fee to the Farmers entities. On 25 April 2008, Farmers filed its petition seeking review by the California Supreme Court. The California Supreme Court denied review on June 11 2008, and the case was remanded back to trial court for further proceedings.

On or about 20 February 2009, the plaintiff filed a second amended complaint, which added ZFS as a defendant. The plaintiff has moved for certification of the class, and the hearing is being scheduled.

(b) Pension Fund Litigation

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 at 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 allege that the life insurance companies and other parties involved were jointly responsible for consolidated damages amounting to CHF 215 million plus 5 per cent interest. Whereas two suits remain pending, seven suits have been either withdrawn or finally dismissed in the meantime. Criminal charges raised against four former employees of the Group have been finally dismissed.

(c) Converium Related Litigation

ZFS was a defendant in *In re Converium Holding AG Securities Litigation*, a consolidated class action brought on behalf of the holders of securities issued by Converium. Until 2001, ZFS’s third-party assumed reinsurance business had operated under the “Zurich Re” brand name. In 2001, that business was reorganized under Converium. In December 2001, ZFS sold all of its shares of Converium stock through an initial public offering (“**IPO**”), which resulted in realised gross cash proceeds of USD 2.0 billion. Converium’s American Depositary Shares were listed on the New York Stock Exchange; its shares traded on the SIX Swiss Exchange.

During 2004 Converium announced additions to its reserves for prior underwriting years totaling USD 562 million and also announced that Converium Reinsurance (North America) Inc. would cease writing new insurance business. Converium also announced on 4 November 2005 that it would restate unspecified financial accounts. Converium published the details of the restatement on 28 February 2006, restating its financial statements for the years 1998 through 2004.

Following the 2004 announcements of reserve increases, various putative class-action lawsuits were filed in the federal court against Converium, ZFS and others starting in October 2004. Those cases, together with a separate putative class action that was originally filed in a state court, were consolidated into one putative class action captioned *In re Converium Holding AG Securities Litigation*, No. 04 Civ. 7897 (DLC), in the United States District Court for the Southern District of New York, with the putative class consisting of all persons and entities that had purchased Converium securities between 11 December 2001 (the date of the IPO) and 2 September 2004.

On 24 August 2007, the plaintiffs and ZFS signed an initial settlement agreement that would resolve the plaintiffs’ and the putative class members’ claims against ZFS. The agreement provided for a release of all claims against (i) ZFS and its subsidiaries and affiliates, (ii) the corporate releasees’ present and former officers, directors, and employees (except former officers and employees Dirk Lohmann, Martin Kauer, and Richard Smith) to the extent they were acting on behalf of ZFS at any time, and to the extent they were acting on behalf of Converium before 10 January 2002, (iii) Converium’s present and former officers, directors, and employees (except Messrs. Lohmann, Kauer, and Smith) to the extent they were acting on behalf of ZFS at any time, and to the extent they were acting on behalf of Converium before 10 January 2002; (iv) Messrs. Lohmann, Kauer, and Smith to the extent they were acting on behalf of ZFS at any time, and to the extent they were acting on behalf of Converium before 10 December 2001 (excluding any claims based on the IPO registration statement and prospectus), and (v) the IPO underwriters.

On 6 March 2008, the court certified a litigation class against the nonsettling Converium defendants, but excluded from the class (i) all persons who had purchased Converium securities between 11 December 2001 and 6 January 2002, and (ii) all non-US persons and entities who had purchased Converium securities on non-US markets during the class period.

In light of the court’s ruling, ZFS entered into an amended stipulation of settlement with plaintiffs in July 2008 to resolve the claims of all purchasers of Converium securities between 7 January 2002 and 2 September 2004 for a payment of USD 28 million. The amended settlement consists of two parts, both of which are subject to court approval: one settlement in the US court for USD 9.6 million (for

US persons and entities who purchased Converium securities on any market between 7 January 2002 and 2 September 2004, and any non-US persons and entities who purchased Converium securities on US markets between 7 January 2002 and 2 September 2004), and another in the Amsterdam Court of Appeal, in the Netherlands, for USD 18.4 million (for non-US persons and entities who purchased Converium securities outside the US between 7 January 2002 and 2 September 2004). Converium entered into a similar two-part settlement for USD 115 million.

The US court granted final approval of ZFS's and Converium's US settlements on 12 December 2008, and the US settlements became final on 25 June 2009. ZFS's and Converium's proposed Dutch settlements have not yet been finalized or presented to the Dutch court for approval.

(d) Fuller Austin Litigation

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 and Orange Stone Reinsurance Dublin are named as defendants. Plaintiffs, who are historic 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 defences. The initial bench trial, which was scheduled to commence in July 2010, has now been postponed. A hearing on certain pretrial arguments has also been postponed. No new dates have yet been scheduled.

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. On 19 November 2009, the plaintiffs amended their complaint to add ZIC, Orange Stone Reinsurance Dublin and two additional ZAIC subsidiaries as defendants (the "**Newly-Added Defendants**"). As in the *Fuller-Austin* cases, plaintiffs allege that API, Inc. is an insured under policies issued by Home, primarily in the 1970s. The complaint seeks to hold defendants (the "**Defendants**") liable for Home's (the "**Home**") 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 31 March 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. The Defendants have asked for permission to file a motion for reconsideration of the court's ruling on their statute of limitations defense. In addition, the Defendants' motion to dismiss on behalf of all the Defendants is still pending before the court, and a ruling is expected soon.

Regulatory Investigations and Related Litigation

The Zurich Insurance Group's business is subject to extensive supervision, and companies in the Zurich Insurance Group are in regular contact with various regulatory authorities. Certain companies in the Zurich Insurance Group have received the following inquiries by regulatory authorities and other state bodies. With respect to the following investigations, the Zurich Insurance Group is cooperating and will continue to cooperate with the authorities. It cannot be predicted what action, if any, any of the governmental agencies will take as a result of the respective investigations. An unfavourable outcome of the investigation could adversely affect Zurich Insurance Group's business, results of operation and financial condition.

Regulatory Investigations and Related Litigation in the US

(a) *Insurance Broker Practices*

Commencing in August 2004, the Office of the New York Attorney General issued several subpoenas to ZAIC and certain of its US-based insurance subsidiaries relating to certain business practices involving insurance brokers. In addition, a number of state attorneys general, state insurance departments and the United States Department of Labor issued subpoenas to ZAIC and other of its US-based subsidiaries.

On 27 March 2006, ZAIC and Zurich Holding Company of America (“**ZHCA**”) reached a settlement agreement with the Offices of the Attorneys General of the States of New York, Connecticut, and Illinois and, in a separate agreement, the New York Department of Insurance (the “**Three-State Agreement**”) relating to their industry-wide investigations into broker compensation and insurance placement practices and non-traditional products and finite risk and insurance/reinsurance. The Three-State Agreement called for the payment of approximately USD 88 million in restitution to excess casualty policyholders and USD 65 million in fines and imposes certain business reforms and disclosure requirements and certain limitations on the payment of contingent commissions. ZAIC and ZHCA did not admit to any violation of US federal or state laws as part of the Three-State Agreement. According to the terms of the Three-State Agreement, ZHCA made an USD 88 million capital contribution to ZAIC on 4 May 2006 and ZAIC paid USD 88 million as part of the settlement. On 8 May 2006, ZHCA paid USD 65 million in fines as required by the Three-State Agreement.

Also, beginning on 20 March 2006, ZAIC reached a settlement agreement with ten additional state attorneys general, including the state attorneys general of Florida and Texas and one insurance commissioner (the “**Multi-State Agreement**”) relating to their industry-wide investigations into broker compensation and insurance placement practices and “non-traditional” products and finite insurance/reinsurance. Also beginning on 20 March 2006, ZAIC reached settlement agreements with fifteen insurance commissioners, including the insurance commissioners of California and Illinois (the “**Regulatory Agreement**”) relating to their industry-wide investigations into broker compensation and insurance placement practices. As part of these settlement agreements, ZAIC agreed to certain business reforms and disclosure requirements and certain limitations on the payment of contingent commissions. As part of the implementation of the business reforms under the Multi-State Agreement, certain settling state attorneys general instituted actions for entry of orders and stipulated injunctions, and subsequently for entry of amended orders and stipulated injunctions. In addition, as discussed below, under the Multi-State Agreement, ZAIC agreed to a USD 51.7 million settlement fund that will be distributed through a separate settlement agreement entered into in the consolidated class action proceeding (*In re Insurance Brokerage Antitrust Litigation*, Civil No. 04-5184 (D.N.J.)). The Multi-State Agreement also required ZAIC to pay USD 20 million for the states’ fees and costs. The Regulatory Agreement did not require the payment of any money. ZAIC did not admit to any violation of US federal or state laws as part of these settlement agreements with state attorneys general and insurance commissioners.

On 25 October 2006, ZAIC entered into a settlement with the Ohio Attorney General and Ohio Department of Insurance that resolves their investigations of Zurich’s broker compensation and insurance placement practices and, in addition, resolves the Ohio Attorney General’s investigation into ‘non-traditional’ products and finite insurance/reinsurance. Zurich agreed to pay the Ohio Attorney General the sum of USD 6 million, which amount comprises a civil penalty of USD 4 million and reimbursement of attorneys’ fees and investigative costs of USD 2 million. Zurich agreed to pay the Ohio Department of Insurance a civil penalty of USD 1 million. The business reforms agreed to in the settlement are similar to the ones agreed to in the Multi-State and Three-State Agreements. ZAIC did not admit to any violation of US federal or state laws as part of this settlement agreement.

On 4 December 2006, ZAIC entered into separate settlement agreements with the attorneys general of the District of Columbia and the State of Michigan that resolved their investigations into bid-rigging and incentive compensation agreements and “non-traditional” products and finite insurance/reinsurance. The business reforms agreed to in these settlements are the same as those agreed to in the Multi-State Agreement. These settlements did not require payment of any money. ZAIC did not admit to any violation of US federal or state laws as part of these settlement agreements.

A number of lawsuits were filed by private parties against ZFS and certain of its subsidiaries arising out of the foregoing regulatory investigations. Certain putative class action lawsuits filed in different federal courts against ZAIC were consolidated into one action before the United States District Court for the District of New Jersey under the caption *In re Insurance Brokerage Antitrust Litigation*, Civil No. 04-5184 (the “**Consolidated Class Action**”). The first and second consolidated amended commercial class action complaint in that action (“**Consolidated Complaint**”) named ZFS and various subsidiaries as defendants (among other insurers and insurance brokers) and alleged that these defendants were involved in a contingent commission and bid-rigging scheme. The Consolidated Complaint alleged breach of fiduciary duties, aiding and abetting breach of fiduciary duties, unjust enrichment, violations of state and federal antitrust laws and Racketeer Influenced and Corrupt Organizations Act (“**RICO**”) and sought unspecified compensatory

damages plus punitive damages, injunctive relief and attorneys' fees and costs. The class period alleged in the Consolidated Complaint began on 26 August 1994 and purported to continue to the date of any class certification.

On 28 July 2006, ZFS and certain of its subsidiaries entered into a settlement agreement with plaintiffs in the Consolidated Class Action (amended on 28 August 2006) pursuant to which Zurich agreed to settle the claims made in the litigation (the "**Class Action Settlement**"). The settlement, in conjunction with the Multi-State Agreement, provides for a settlement fund of USD 121,800,000 to be distributed to settlement class members (ZAIC has funded USD 70,100,000 under the Class Action Settlement and USD 51,700,000 under Multi-State Agreement in the same Class Action Escrow Account, totaling USD 121,800,000). On 16 February 2007, the Court approved as final the Class Action Settlement. Over 1,000 current and former policyholders formally requested to be excluded as members of the settlement class. Several objectors have filed notices of appeal of the Class Action Settlement. On 8 September 2009, the United States Court of Appeals for the Third Circuit affirmed the District Court's approval of the Class Action Settlement. The Class Action Settlement is now final. The Zurich defendants did not admit to any violation of US federal or state laws as part of the Class Action Settlement.

ZAIC and certain of its subsidiaries and Zurich Specialties London have been named as defendants (among other insurers and insurance brokers) in a suit filed on or about 4 April 2006 by some 18 (later to be reduced to 10) corporate purchasers of insurance in the United States District Court for the District of Georgia under the caption *New Cingular Wireless Headquarters, LLC, v. Marsh & McLennan Cos, Inc.*, Civil No. 06 CV-0796 (N.D. Ga.). The complaint alleges that these defendants were involved in bid-rigging and a contingent commission payment scheme in violation of the federal antitrust laws and RICO, as well as state-law claims of inducement to breach fiduciary duty, unjust enrichment, common-law fraud, and statutory and consumer fraud. The complaint seeks unspecified compensatory and punitive damages and attorneys' fees and costs. On 16 October 2006, the Judicial Panel on Multidistrict Litigation transferred the case to the District of New Jersey for coordinated or consolidated pre-trial proceedings with the Consolidated Class Action. The proceeding is currently stayed pending further order of the court. The plaintiffs have requested to be excluded as members of the Class Action Settlement.

ZAIC and certain of its subsidiaries have also been named as defendants (among other insurers and insurance brokers) in a suit filed on or about 15 February 2007, by a corporate purchaser of insurance in the United States District Court for the District of New Jersey under the caption *Avery Dennison Corp. v. Marsh & McLennan Cos, Inc.*, Civil No. 07-00757 (D.N.J.). The complaint alleges that the insurance company defendants were involved in a bid-rigging and contingent commission payment scheme in a violation of the federal antitrust laws and California's unfair trade practices act. The complaint contains additional allegations against the insurance broker defendants. The complaint seeks treble and punitive damages, restitution, unspecified compensatory damages, injunctive relief, prejudgment interest, and attorneys' fees and costs. On or about 6 March 2007, the case was consolidated with the Consolidated Class Action. The proceeding is currently stayed pending further order of the court. The plaintiff has formally requested to be excluded as a member of the Class Action Settlement.

ZAIC and certain of its subsidiaries have also been named as defendants (among other insurers and an insurance broker) in a suit filed on or about 21 May 2007, by seven corporate purchasers of insurance in the United States District Court for the District of New Jersey under the caption *Henley Management Co. v. Marsh, Inc.*, Civil No. 07-2389 (D.N.J.). The complaint alleges that the insurance company defendants were involved in a bid rigging and contingent commission payment scheme in violation of the federal antitrust laws. The complaint contains additional allegations against the insurance broker defendant. The complaint seeks treble damages, attorneys' fees and restitution. On or about 11 July 2007, the case was consolidated with the Consolidated Class Action. The proceeding is currently stayed pending further order of the court. Certain of the plaintiffs have formally requested to be excluded as members of the Class Action Settlement.

In addition, putative class actions and one action brought by an individual policyholder were filed in state courts as follows:

- (i) On or about January 2005, a state-wide Massachusetts putative class action suit entitled *Van Emden Mgmt. Corp. v. Marsh & McLennan Cos., Inc., et al.*, was served on Steadfast Insurance Company, an indirect subsidiary of Zurich Insurance Company Ltd, alleging bid-rigging and a contingent commission payment scheme in violation of state antitrust law, breach of fiduciary duty and state conspiracy laws. The complaint seeks unspecified damages, treble damages, injunctive relief and attorneys' fees. The proceeding is stayed pending further order of the court. The named plaintiff has formally requested to be excluded as a member of the Class Action Settlement.
- (ii) On or about July 2005, a Florida state suit brought by an individual policyholder entitled *Office Depot Inc. v. Marsh & McLennan Cos. Inc., et al.*, was served against ZAIC alleging bid-rigging and a contingent commission payment scheme in breach of fiduciary duty and fraud, restraint of trade, deceptive and unfair trade practices, unjust enrichment, state RICO

violations, and commercial bribery. The complaint seeks unspecified compensatory damages plus punitive damages and attorneys' fees and costs. The plaintiff has formally requested to be excluded as a member of the Class Action Settlement.

- (iii) On or about 31 October 2007, an individual policyholder filed an amended complaint in an action entitled *RSR Corp. v. Marsh & McLennan Cos., Inc., et al.*, Cause No. DC-06-01362-M (Tex. Dist. Ct., Dallas County), in Texas state court, naming ZAIC and certain of its subsidiaries (among other insurers and an insurance broker), Zurich North America and Zurich Insurance Company Ltd as defendants. Service of the amended complaint was not accepted on behalf of Zurich North America and Zurich Insurance Company Ltd. The amended complaint alleges violations of state antitrust law, aiding and abetting fraud and breaches of fiduciary duties, and civil conspiracy, as well as additional claims against the broker defendant. The amended complaint seeks unspecified damages plus punitive and treble damages, disgorgement, restitution and attorneys' fees. The plaintiff has formally requested to be excluded as a member of the Class Action Settlement.

As noted, some of the complaints in these actions do not specify the total amount of damages sought. Zurich Insurance Group cannot, at this time, estimate the potential costs related to these legal matters. It is possible that additional actions could be filed against the Zurich Insurance Group arising out of the investigations concerning certain business practices involving insurance brokers. At this time, Zurich Insurance Group is unable to predict the potential effects, if any, that the investigations and related actions may have upon the insurance and reinsurance markets and industry business practices or what, if any, changes may be made to laws and regulations regarding the industry.

Zurich Finance (Luxembourg) S.A.

Zurich Finance (Luxembourg) S.A. (“**ZF (Luxembourg)**”) was incorporated on 19 May 1999, and operates under the Companies Act of the Grand Duchy of Luxembourg dated 10 August 1915 concerning commercial companies, as amended, as a public limited liability company (*société anonyme*). It is registered with the Luxembourg trade and companies register under number B.69.748. The registered office of ZF (Luxembourg) is at 45, rue des Scillas, L-2529 Howald, Luxembourg and its telephone number is +352 266 42 61. ZF (Luxembourg) has no subsidiaries.

ZF (Luxembourg) is a subsidiary of ZIC. The subscribed and fully paid up capital of ZF (Luxembourg) is EUR 124,000 divided into 1,240 ordinary shares in registered form, each with a par value of EUR 100. ZF (Luxembourg) is a group financing company and it is not engaged in and does not propose to engage in any activity other than issuing the Notes and entering into other financing transactions.

In general, ZF (Luxembourg) may take any controlling and supervisory measures and carry out any operation or transaction which it considers necessary or useful in the accomplishment and development of its corporate purposes.

The corporate objects of ZF (Luxembourg) are primarily to raise finance for members of the Zurich Insurance Group.

The members of the Board of Directors of ZF (Luxembourg) are:

<u>Name</u>	<u>Function</u>	<u>Business Address</u>
Sabine Lallier.....	Director	45, rue des Scillas, L-2529 Howald, Luxembourg
Nadir Garzetti	Director and Chairman	Mythenquai 2, 8002 Zurich, Switzerland
Robert Burne.....	Director	IFSC, La Touche, Dublin 1, Ireland

As of the date of this Base Prospectus, no member of the Board of Directors of ZF (Luxembourg) has any conflicts of interests between his duties to ZF (Luxembourg) and his private interests and other duties. If a potential conflict arises in the future, it would be subject to the provisions in the articles of incorporation relating to proceedings at meetings of the Board of Directors.

The fiscal year of ZF (Luxembourg) begins on 1 January and terminates on 31 December of each year.

Zurich Finance (USA), Inc.

Zurich Finance (USA), Inc. (“**ZF (USA)**”) was incorporated in the State of Delaware by the filing of its certificate of incorporation with the Delaware Secretary of State on 9 April 1998 and operates under 8 Del. C. S101 et seq of the Delaware General Corporation Law as a corporation. The registered office of ZF (USA) is 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. ZF (USA) has an office at 1400 American Lane, Schaumburg, Illinois 60196 and its telephone number is +1 847 605 6000. ZF (USA) has a Federal employment tax identification (“**FEIN**”) number of 36-4228642.

The authorised capital stock of ZF (USA) consists of 1,000 shares of Common Stock par value of USD 0.01 per share, of which 100 shares are issued and outstanding and all of which are owned by Zurich Holding Company of America Inc., a subsidiary of ZIC.

The primary objective of ZF (USA) is to raise capital to finance the operation of members of the Zurich Insurance Group.

The members of the Board of Directors of ZF (USA) are:

<u>Name</u>	<u>Function</u>	<u>Business Address</u>
Michael T. Foley.....	Director and Chairman	1400 American Lane, Schaumburg, Illinois 60196, USA.
Vibhu R. Sharma.....	Director	1400 American Lane, Schaumburg, Illinois 60196, USA.
Pierre Wauthier.....	Director	Mythenquai 2, 8002 Zurich, Switzerland
Barry S. Paul.....	Director	1400 American Lane, Schaumburg, Illinois 60196, USA
Richard J. Hauser.....	Director	1400 American Lane, Schaumburg, Illinois 60196, USA

As at the date of this Base Prospectus there are no potential conflicts of interest between the duties owed by any member of the Board of Directors of ZF (USA) to ZF (USA) and his or her private interests and/or other duties.

The fiscal year of ZF (USA) begins on 1 January and terminates on 31 December of each year.

Zurich Finance (UK) plc

Zurich Finance (UK) plc (“**ZF (UK)**”) is a subsidiary of ZFS (UKISA) Limited which in turn is a subsidiary of ZIC. It operates and was incorporated and registered in England and Wales on 18 June 2002 under the Companies Act 1985 as a public limited company with company number 4463547. The registered office of ZF (UK) is UK Life Centre, Station Road, Swindon, Wiltshire SN1 1EL and its telephone number is +44 1793 502493. ZF (UK) has no subsidiaries. ZF (UK) is a group financing company and does not propose to engage in any activity other than issuing the Notes and entering into other financing transactions.

ZF (UK)’s authorised share capital is GBP 50,000,000, divided into 50,000,000 ordinary shares of GBP 1.00 each. The issued and fully paid up capital of ZF (UK) is GBP 50,000 divided into 50,000 shares of GBP 1.00 each.

The primary purpose of ZF (UK) is to raise capital to finance the operations of members of the ZFS Group.

The members of the Board of Directors of ZF (UK) are:

<u>Name</u>	<u>Function</u>	<u>Business Address</u>
Pierre Wauthier	Executive Director and Chairman	Mythenquai 2, 8002 Zurich, Switzerland
Vince Rennie.....	Executive Director	UK Life Centre, Station Road, Swindon, Wiltshire SN1 1EL, UK
Neil Evans.....	Executive Director	UK Life Centre, Station Road, Swindon, Wiltshire SN1 1EL, UK

As at the date of this Base Prospectus, there are no potential conflicts of interests between the duties owed by any member of the Board of Directors of ZF (UK) to ZF (UK) and his private interests or other duties. If a potential conflict arises in the future, it would be subject to the provisions of the articles of association relating to proceedings at meetings of the Board of Directors.

The fiscal year of ZF (UK) begins on 1 January and terminates on 31 December of each year.

Zurich Bank

General

Zurich Bank (registered number 223695) was incorporated on 24 October 1994 and registered as an Irish public unlimited company on 18 August 1999 under the Companies Acts 1963 to 1999 of Ireland. Its registered office and place of business is La Touche House, International Financial Services Centre, Dublin 1, Ireland (telephone +353 1 417 9200). Zurich Bank is an indirect subsidiary of ZFS.

Zurich Bank has an authorised share capital of GBP 100,023,000.

Business and Strategy

Zurich Bank is an authorized Irish credit institution, having received its banking licence from the Central Bank of Ireland in September 2001. Zurich Bank is the parent company of Dunbar Bank plc, Zurich Bank International Limited and Zurich Trust Limited, which are its active subsidiaries. Dunbar Bank plc is registered in England, and authorised and regulated by the Financial Services Authority. Zurich Bank International Limited is registered in the Isle of Man and licensed by the Financial Supervision Commission to conduct banking business. Zurich Trust Limited is based in Jersey and is involved in the provision of trustee and management services.

As of the date of this Base Prospectus, Zurich Bank's business encompasses a range of banking activities, the most significant of which is the management of its property loan assets. In 2009 Zurich Bank decided to cease new loan origination activity in the property sector. In May 2010 Dunbar Bank plc decided that it would no longer engage in new loan origination activity.

Notes issued by Zurich Bank under this Programme will not receive the benefit of either:

- (i) the Surety Bond, dated 23 September 1997 (the “**1997 Surety Bond**”) whereby Zurich Insurance Company Ltd has agreed to cause Zurich Bank to maintain a specified net worth at all times and to provide Zurich Bank with funds required to make any payment or delivery required under the terms of any Financial Product Instrument (as such term is defined in the 1997 Surety Bond) or
- (ii) the Guaranty dated 21 June 2001 (the “**2001 Guaranty**”) whereby ZFS has agreed to provide Zurich Bank with funds required to make any payment or delivery required under the terms of any Guaranteed Obligation (as such term is defined in the 2001 Guaranty) upon the request of a Zurich Capital Markets party (as that term is defined in the 2001 Guaranty), subject to certain limitations contained in the 2001 Guaranty,

and therefore, Notes issued by Zurich Bank under this Programme will only be covered by the Senior ZIC Guarantee or the Subordinated ZIC Guarantee (as applicable), as described in the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes.

Board of Directors of Zurich Bank

The members of the Board of Directors of Zurich Bank are:

<u>Name</u>	<u>Function</u>	<u>Business Address</u>
Pierre Wauthier	Non-Executive Chairman	Mythenquai 2, 8002 Zurich, Switzerland
Colm Holmes	Executive Director and Chief Executive Officer	La Touche House, International Financial Services Centre Dublin 1, Ireland
Greg Dempsey	Executive Director	La Touche House, International Financial Services Centre Dublin 1, Ireland
Aisling Scully	Executive Director	La Touche House, International Financial Services Centre, Dublin 1, Ireland
Seamus Palmer.....	Executive Director	La Touche House, International Financial Services Centre, Dublin 1, Ireland
Marcia Scheiner	Non-Executive Director	1 Liberty Plaza New York, N.Y. 10006, USA
Nicholas Bullman	Non-Executive Director	Dayr House, Prospect Road, Bath BA2 6AY, England
John Cunningham	Non-Executive Director	31 Park Drive, Ranelagh, Dublin 6, Ireland
Mike Pitcher.....	Non-Executive Director	58D, Tower 8, The Belchers, 89 Pok Fuham Road, Hong Kong

As of the date of this Base Prospectus there are no potential conflicts of interest between the duties owed by any member of the Board of Directors of Zurich Bank to Zurich Bank and his or her private interests and/or other duties. In the event that a potential conflict of interest arises in the future, a director of Zurich Bank would be subject to a fiduciary obligation to avoid such a conflict under Irish law. In addition, the articles of association of Zurich Bank require a director of Zurich Bank to disclose to the Board of Directors the nature of any interest he or she may have in a contract or proposed contract with Zurich Bank.

The fiscal year of Zurich Bank begins on 1 January and terminates on 31 December of each year.

Regulation

Zurich Bank is regulated by the Irish Financial Services Regulatory Authority, a constituent part of the Central Bank and Financial Services Authority of Ireland (the “**Financial Regulator in Ireland**”) and holds a banking licence pursuant to Section 9 of the Central Bank Act 1971 of Ireland (as amended).

Form of Senior Guarantee

This guarantee agreement is made on the date of issue of the relevant tranche as specified in the Schedule hereto between:

- (1) ZURICH INSURANCE COMPANY LTD of Mythenquai 2, CH8002 Zurich, Switzerland, a company incorporated with limited liability under the laws of Switzerland (the “**Guarantor**”); and
- (2) CITICORP TRUSTEE COMPANY LIMITED, of 14th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, acting as trustee for the Noteholders, the Receiptholders and the Couponholders (each as defined below) (the “**Trustee**”, which expression shall, where the context so admits, include such company and all other persons or companies for the time being the trustee or trustees of the Trust Deed).

WHEREAS

- (A) [ZURICH FINANCE (LUXEMBOURG) S.A.] [ZURICH FINANCE (USA), INC.] [ZURICH FINANCE (UK) PLC] [ZURICH BANK] as issuer, may issue Euro Medium Term Notes in an aggregate nominal amount of up to USD15,000,000,000 (or its equivalent in other currencies) pursuant to a Euro Medium Term Note Programme established by them.
- (B) The Issuer of the Notes of the relevant tranche specified in the Schedule hereto (the “**Issuer**”) has agreed to issue the Notes described in the Schedule hereto (the “**Notes**”) on the issue date specified in the Schedule hereto.
- (C) The Guarantor has agreed to guarantee to the Trustee up to a specified maximum amount the obligations of the Issuer to pay principal, interest and all other amounts payable on all outstanding Notes and under the Trust Deed (the “**Senior ZIC Guarantee**”) for the benefit of the Trustee, the holders of the Notes (the “**Noteholders**”), the holders of the Receipts (if any) relating thereto (the “**Receiptholders**” and the “**Receipts**”, respectively) and the holders of the Coupons (if any) relating thereto (the “**Couponholders**” and the “**Coupons**” respectively) (the Noteholders, the Receiptholders and the Couponholders together the “**Holders**” and the Notes, the Coupons and the Receipts together the “**Securities**”).

1. GUARANTEE

(1) Senior ZIC Guarantee

The Guarantor hereby irrevocably and unconditionally undertakes in its capacity as primary obligor and not merely as a surety, pursuant to Art. 111 of the Swiss Federal Code of Obligations, irrespective of the validity of the Securities and the Trust Deed and waiving all rights of objection and defence arising from the Securities and the Trust Deed to pay to the Trustee, acting for the benefit of the Holders, within seven days after the receipt by the Guarantor of the Trustee’s first written demand for payment and the Trustee’s confirmation in writing that an amount due under the Securities or the Trust Deed which is equivalent to the amount claimed under the Senior ZIC Guarantee has remained unpaid on the due date (the last day of such period of seven days being hereinafter referred to as the “**Seventh Day**”), such amount upon the following terms:

- (a) the Senior ZIC Guarantee constitutes a direct, unconditional, unsubordinated and unsecured obligation of the Guarantor ranking (subject as aforesaid) *pari passu* with all its other outstanding unsecured and unsubordinated obligations, present and future, save for statutorily preferred exceptions, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors’ rights;
- (b) the maximum liability of the Guarantor under the Senior ZIC Guarantee (including, in particular, all amounts payable under Clause 3 of the Senior ZIC Guarantee and all other amounts payable under the Senior ZIC Guarantee) shall not exceed in aggregate [insert currency and amount] (the “**Guarantee Amount**”) calculated in accordance with Note 1 which may not be reduced for so long as any sum remains payable under the Securities;
- (c) all rights arising from the Senior ZIC Guarantee shall be held exclusively by the Trustee and no Holder may proceed directly against the Guarantor under the Senior ZIC Guarantee unless the Trustee having been so requested in writing by the Holders of not less than 25 per cent in nominal amount of the Notes then outstanding or so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders to proceed, fails to do so within a reasonable period and such failure is continuing; and

- (d) the Guarantor agrees that any payments to be made by it hereunder shall be made to or to the order of the Trustee in the place of payment specified in the Schedule hereto in the currency specified in the Schedule hereto in immediately available funds before close of business in that city on the Seventh Day and any such payment shall, to that extent, satisfy the obligation of the Guarantor under the Senior ZIC Guarantee.

Such written demand shall, however, not be submitted to the Guarantor before seven days have passed since the due date on which such amount due under the Securities or the Trust Deed should have been paid.

(2) Guarantor's Obligations Continuing

Subject to Clause 1(1)(b), the Guarantor's obligations under the Senior ZIC Guarantee are and will remain in full force and effect by way of continuing security until no sum remains payable under the Securities. Furthermore, the obligations of the Guarantor hereunder are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person, whether from the Guarantor or otherwise, and may be enforced without first having recourse to the Issuer, any other person, any security or any other guarantee or indemnity.

(3) Exercise of Guarantor's Rights

So long as any sum remains payable by the Issuer under the Securities, no right of the Guarantor, by reason of the performance of any of its obligations under the Senior ZIC Guarantee, to be indemnified by the Issuer or to take the benefit of or enforce any security or other guarantee or indemnity shall be exercised or enforced. Until all amounts which may be or become payable in respect of the Securities have been irrevocably paid in full, the Guarantor shall not by virtue of the Senior ZIC Guarantee be subrogated to any rights of the Trustee or any Holder or claim in competition with the Trustee or the Holders against the Issuer.

(4) Avoidance of Payments

Any settlement or discharge between the Guarantor and the Trustee in respect of the Senior ZIC Guarantee shall be conditional upon no payment to the Trustee or any Holder by the Issuer or any person on the Issuer's behalf being avoided or reduced by virtue of any provision or enactment relating to bankruptcy, insolvency or liquidation or similar laws of general application for the time being in force and, in the event of any such payment being so avoided or reduced, the Trustee shall be entitled to recover from the Guarantor the amount by which such payment is so avoided or reduced as if such settlement or discharge had not occurred.

2. ACCEPTANCE

The Trustee accepts the Senior ZIC Guarantee in its capacity as trustee for the Holders. The Guarantor agrees to be bound by the provisions of Condition 7 (subject to Clause 1(1)(b)) of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes as if set out in full in this guarantee agreement.

3. CURRENCY INDEMNITY

(1) Currency of Account and Payment

The currency of the Notes (the "**Contractual Currency**") is the sole currency of account and payment for all sums payable by the Guarantor under or in connection with the Senior ZIC Guarantee, including damages.

(2) Extent of Discharge

Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Guarantor or otherwise), by the Trustee in respect of any sum expressed to be due to it from the Guarantor will only discharge the Guarantor to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that day, on the first date on which it is practicable to do so).

(3) Indemnity

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under the Senior ZIC Guarantee, the Guarantor will, subject to Clause 1(1)(b), indemnify the recipient against any loss sustained by it as a result and will indemnify it against the cost of making any such purchase.

(4) Indemnity separate

This indemnity constitutes a separate and independent obligation from the other obligations in the Senior ZIC Guarantee, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by the Trustee and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Senior ZIC Guarantee or any judgment or order, subject always to Clause 1(1)(b).

4. NOTICES

Each notice or demand under the Senior ZIC Guarantee shall be made in writing. Each notice or demand to be made or sent to the Guarantor under the Senior ZIC Guarantee shall be made or sent (airmail, postage prepaid, if sent by post to another country) to the Guarantor at the address, and for the attention of the person, from time to time designated by the Guarantor for the purposes of the Senior ZIC Guarantee. Any such notice or demand shall be effective when actually delivered to such address. The address, attention and telefax number of the Guarantor for notices or demands under the Senior ZIC Guarantee for the time being are as follows:

Zurich Insurance Company Ltd
Mythenquai 2
CH8002 Zurich Fax: +41 (0)44 625 34 99
Attention: Group Treasury and Capital Management
With a copy to: Fax: +41 (0)44 625 34 99
Attention: Head of Group Treasury and Capital Management

5. RIGHT OF PRODUCTION

A copy of the Senior ZIC Guarantee will be deposited with each of the paying agents appointed under the Agency Agreement. The Guarantor hereby acknowledges the right of each Holder to production of a copy of the Senior ZIC Guarantee.

6. GOVERNING LAW AND JURISDICTION

(1) Governing Law

The Senior ZIC Guarantee shall be governed by, and construed in accordance with, the substantive laws of Switzerland.

(2) Jurisdiction

Any dispute arising out of the Senior ZIC Guarantee between the Guarantor and the Trustee, or between the Guarantor and a Holder who is entitled to proceed against the Guarantor pursuant to Clause 1(1)(c), shall fall exclusively within the jurisdiction of the Commercial Court of the Canton of Zurich, venue being Zurich 2, with the right of appeal, where the law permits, to the Swiss Federal Court of Justice in Lausanne, the decision of which shall be final.

This guarantee agreement has been entered into on the date stated at the beginning.

ZURICH INSURANCE COMPANY LTD

By:

By:

CITICORP TRUSTEE COMPANY LIMITED

By:

By:

Note 1:

* The Guarantee Amount in respect of a relevant tranche of Notes (other than Variable Notes (as defined below)) will be calculated as follows:

For Fixed Rate Notes:
 $GA = RA + (3 \times I) + AA$

For Floating Rate Notes:
 $GA = RA + (3 \times EI) + AA$

For Zero Coupon Notes:
 $GA = RA + AA$

where:

“GA” means Guarantee Amount;

“RA” means the greater of the Early Redemption Amount and the Final Redemption Amount of the Notes, each as defined in the applicable Final Terms;

“I” means the amount of interest payable on the Notes up to the first anniversary of their issue date;

“EI” means the estimated amount of interest payable on the Notes up to the first anniversary of their issue date calculated on the basis that interest is payable for each interest period ending on or prior to such first anniversary at 1.5 times the rate fixed for the first interest period; and

“AA” means USD100,000 (or its equivalent in the currency of the Guarantee Amount) representing an additional amount to guarantee the payments of the Issuer to be due under the Trust Deed but not under the Securities.

For Notes with a variable or partial redemption amount or for Notes (other than Floating Rate Notes) where the amount of interest is not determinable at the Issue Date (**“Variable Notes”**), the Guarantee Amount will be signed between the Guarantor and the relevant Dealer on or before the Issue Date.

[Final Terms annexed]

THE SCHEDULE

Issuer:..... [Zurich Finance (Luxembourg) S.A.] [Zurich Finance (USA), Inc.] [Zurich Finance (UK) plc] [Zurich Bank]

Title of Notes being issued:..... []

Date of issue of relevant Tranche:..... []

Guarantee Amount []

Place of payment and specified currency for
the purposes of Clause 1(d):..... []

Form of Subordinated Guarantee

This subordinated guarantee agreement is made on the date of issue of the relevant tranche as specified in the Schedule hereto between:

- (1) ZURICH INSURANCE COMPANY LTD of Mythenquai 2, CH-8002 Zurich, Switzerland, a company incorporated with limited liability under the laws of Switzerland (the “**Guarantor**”); and
- (2) CITICORP TRUSTEE COMPANY LIMITED, of 14th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, acting as trustee for the Noteholders, the Receiptholders and the Couponholders (each defined below) (the “**Trustee**”, which expression shall, where the context so admits, include such company and all other persons or companies for the time being the trustee or trustees of the Trust Deed).

WHEREAS

- (A) [ZURICH FINANCE (LUXEMBOURG) S.A.] [ZURICH FINANCE (USA), INC.] [ZURICH FINANCE (UK) plc] [ZURICH BANK], as issuer, may issue Euro Medium Term Notes in an aggregate nominal amount of up to USD15,000,000,000 (or its equivalent in other currencies) pursuant to a European Medium Term Note Programme established by them.
- (B) The Issuer of the Notes of the relevant tranche specified in the Schedule hereto (the “**Issuer**”) has agreed to issue the Notes described in the Schedule hereto (the “**Subordinated Notes**”) on the issue date specified in the Schedule hereto.
- (C) The Guarantor has agreed to guarantee to the Trustee up to a specified maximum amount the obligations of the Issuer to pay principal, interest and all other amounts payable on all outstanding Subordinated Notes and under the Trust Deed (the “**Subordinated ZIC Guarantee**”) for the benefit of the Trustee, the holders of the Subordinated Notes (the “**Noteholders**”), the holders of the Receipts (if any) relating thereto (the “**Receiptholders**” and the “**Receipts**”, respectively) and the holders of the Coupons (if any) relating thereto (the “**Couponholders**” and the “**Coupons**” respectively) (the **Noteholders**, the **Receiptholders** and the **Couponholders** together the “**Holders**” and the Subordinated Notes and the Coupons together the “**Subordinated Securities**”).

1. GUARANTEE

(1) Subordinated ZIC Guarantee

The Guarantor hereby irrevocably and unconditionally undertakes on a subordinated basis in its capacity as primary obligor and not merely as a surety, pursuant to Art. 111 of the Swiss Federal Code of Obligations, irrespective of the validity of the Subordinated Securities and the Trust Deed and waiving all rights of objection and defence arising from the Subordinated Securities and the Trust Deed to pay to the Trustee, acting for the benefit of the Holders, within seven days after the receipt by the Guarantor of the Trustee’s first written demand for payment and the Trustee’s confirmation in writing that an amount due under the Subordinated Securities or the Trust Deed which is equivalent to the amount claimed under the Subordinated ZIC Guarantee has remained unpaid on the due date (the last day of such period of seven days being hereinafter referred to as the “**Seventh Day**”), such amount upon the following terms:

- (a) The Subordinated ZIC Guarantee hereunder constitutes a direct, unconditional, subordinated and unsecured obligation of the Guarantor.

Claims in respect of the Subordinated ZIC Guarantee will, in the event of a winding up, liquidation, dissolution, bankruptcy of or other similar proceedings against the Guarantor (such as bankruptcy (“**Konkurs**”) composition (“**Nachlassvertrag**”) and moratorium (“**Stundung**”)), rank

(i) after the claims of any Senior Creditors (as defined below);

(ii) *pari passu* with any Subordinated Notes and Type A Capital Notes (each as defined in the Trust Deed) of the Guarantor and any other subordinated obligations of the Guarantor which whether now or in the future rank or are expressed to rank *pari passu* with the claims of the holders of such Subordinated Notes or the beneficiaries of this Subordinated ZIC Guarantee (“**Parity Obligations**”, and “**Parity Obligation**” shall be construed accordingly); and

(iii) prior to the claims of the holders of any Type B Capital Notes (as defined in the Trust Deed) and of all classes of issued shares in the share capital of the Guarantor.

As used above, “**Senior Creditors**” means (i) holders of Senior Obligations (as defined in the Trust Deed) and (ii) creditors of the Guarantor in respect of actual or contingent obligations (including claims of holders of insurance policies issued by the Issuer), whether outstanding at the date hereof or subsequently incurred, other than any obligation as to which, in the instrument creating or evidencing the obligation or pursuant to which the obligation is outstanding, it is expressly provided that such obligation is *pari passu* with, or junior to, the Subordinated ZIC Guarantee and/or any Parity Obligations.

- (b) Neither the Trustee nor any Noteholder and/or Couponholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer and/or the Guarantor arising under or in connection with the Subordinated Notes or the Subordinated ZIC Guarantee and the Trustee and each Noteholder, and/or Couponholder and/or Receiptholder shall, by virtue of being the holder of any of the Subordinated Notes and/or Coupons and/or Receipts, be deemed to have waived all such rights of set-off.
- (c) the maximum liability of the Guarantor under the Subordinated ZIC Guarantee (including, in particular, all amounts payable under Clause 3 of the Subordinated ZIC Guarantee and all other amounts payable under the Subordinated ZIC Guarantee) shall not exceed in aggregate [insert currency and amount] (the “**Guarantee Amount**”), calculated in accordance with Note 1 which may not be reduced for so long as any sum remains payable under the Subordinated Securities;
- (d) all rights arising from the Subordinated ZIC Guarantee shall be held exclusively by the Trustee and no Holder may proceed directly against the Guarantor under the Subordinated ZIC Guarantee unless the Trustee having been so requested in writing by the Holders of not less than 25 per cent, in nominal amount of the Subordinated Notes then outstanding or so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders to proceed, fails to do so within a reasonable period and such failure is continuing; and
- (e) the Guarantor agrees that any payments to be made by it hereunder shall be made to or to the order of the Trustee in the place of payment specified in the Schedule hereto in immediately available funds before close of business in that city on the Seventh Day and any such payment shall to that extent, satisfy the obligation of the Guarantor under the Subordinated ZIC Guarantee.

Such written demand shall, however, not be submitted to the Guarantor before 7 days have passed since the due date on which such amount due under the Subordinated Securities or the Trust Deed should have been paid.

(2) Guarantor’s Obligations Continuing

Subject to Clause 1(1)(c), the Guarantor’s obligations under the Subordinated ZIC Guarantee are and will remain in full force and effect by way of continuing security until no sum remains payable under the Subordinated Securities. Furthermore, the obligations of the Guarantor hereunder are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person, whether from the Guarantor or otherwise, and may be enforced without first having recourse to the Issuer, any other person, any security or any other guarantee or indemnity.

(3) Exercise of Guarantor’s Rights

So long as any sum remains payable by the Issuer under the Subordinated Securities, no right of the Guarantor, by reason of the performance of any of its obligations under the Subordinated ZIC Guarantee, to be indemnified by the Issuer or to take the benefit of or enforce any security or other guarantee or indemnity shall be exercised or enforced. Until all amounts which may be or become payable in respect of the Subordinated Securities have been irrevocably paid in full, the Guarantor shall not by virtue of the Subordinated ZIC Guarantee be subrogated to any rights of the Trustee or any Holder or claim in competition with the Trustee or the Holders against Issuer.

(4) Avoidance of Payments

Any settlement or discharge between the Guarantor and the Trustee in respect of the Subordinated ZIC Guarantee shall be conditional upon no payment to the Trustee or any Holder by the Issuer or any person on the Issuer’s behalf being avoided or reduced by virtue of any provision or enactment relating to bankruptcy, insolvency or liquidation or similar laws or general application for the time being in force and, in the event of any such payment being so avoided or reduced, the Trustee shall be entitled to recover from the Guarantor the amount by which such payment is so avoided or reduced as if such settlement or discharge had not occurred.

2. ACCEPTANCE

The Trustee accepts the Subordinated ZIC Guarantee in its capacity as trustee for the Holders. The Guarantor agrees to be bound by the provisions of Conditions 7 (subject to Clause 1(1)(c)) of the Terms and Conditions of the Subordinated Notes as if set out in full in this guarantee agreement.

3. CURRENCY INDEMNITY

(1) Currency of Account and Payment

The currency of the Subordinated Notes (the “**Contractual Currency**”) is the sole currency of account and payment for all sums payable by the Guarantor under or in connection with the Subordinated ZIC Guarantee, including damages.

(2) Extent of Discharge

Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of the enforcement of a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Guarantor or otherwise), by the Trustee in respect of any sum expressed to be due to it from the Guarantor will only discharge the Guarantor to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recover (or, if it is not practicable to make that purchase on that day, on the first date on which it is practicable to do so).

(3) Indemnity

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under the Subordinated ZIC Guarantee, the Guarantor will, subject to Clause 1(1)(c), indemnify the recipient against any loss sustained by it as a result and will indemnify it against the cost of making any such purchase.

(4) Indemnity separate

This indemnity constitutes a separate and independent obligation from the other obligations in the Subordinated ZIC Guarantee, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by the Trustee and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Subordinated ZIC Guarantee or any judgment or order, subject always to Clause 1(1)(c).

4. NOTICES

Each notice or demand under the Subordinated ZIC Guarantee shall be made in writing. Each notice or demand to be made or sent to the Guarantor under the Subordinated ZIC Guarantee shall be made or sent (airmail, postage prepaid, if sent by post to another country) to the Guarantor at the address, and for the attention of the person, from time to time designated by the Guarantor for the purposes of the Subordinated ZIC Guarantee. Any such notice or demand shall be effective when actually delivered to such address. The address, attention and telefax number of the Guarantor for notices or demands under the Subordinated ZIC Guarantee for the time being are as follows:

Zurich Insurance Company Ltd
Mythenquai 2
CH-8002 Zurich Fax: +41 (0)44 625 34 99
Attention: Group Treasury and Capital Management
With a copy to: Fax: +41 (0)44 625 34 99
Attention: Head of Group Treasury and Capital Management

5. RIGHT OF PRODUCTION

A copy of the Subordinated ZIC Guarantee will be deposited by the Guarantor with each of the paying agents appointed under the Agency Agreement. The Guarantor hereby acknowledges the right of each Holder to production of a copy of the Subordinated ZIC Guarantee.

6. GOVERNING LAW AND JURISDICTION

(1) Governing law

The Subordinated ZIC Guarantee shall be governed by, and construed in accordance with, the substantive laws of Switzerland.

(2) Jurisdiction

Any dispute arising out of the Subordinated ZIC Guarantee between the Guarantor and the Trustee, or between the Guarantor and a Holder who is entitled to proceed against the Guarantor pursuant to Clause 1(1)(d), shall fall exclusively within the jurisdiction of the Commercial Court of the Canton of Zurich, venue being Zurich 2, with the right of appeal, where the law permits, to the Swiss Federal Court of Justice in Lausanne, the decision of which shall be final.

This guarantee agreement has been entered into on the date stated at the beginning.

ZURICH INSURANCE COMPANY LTD

By:

By:

CITICORP TRUSTEE COMPANY LIMITED

By:

By:

Note 1:

* The Guarantee Amount in respect of a relevant tranche of Subordinated Notes (other than Variable Notes (as defined below)) will be calculated as follows:

For Fixed Rate Notes:
 $GA = RA + (3 \times I) + AA$

For Floating Rate Notes:
 $GA = RA + (3 \times EI) + AA$

For Zero Coupon Notes:
 $GA = RA + AA$

where:

“GA” means Guarantee Amount;

“RA” means the greater of the Early Redemption Amount and the Final Redemption Amount of the Subordinated Notes, each as defined in the applicable Final Terms;

“I” means the amount of interest payable on the Subordinated Notes up to the first anniversary of their issue date;

“EI” means the estimated amount of interest payable on the Subordinated Notes up to the first anniversary of their issue date calculated on the basis that interest is payable for each interest period ending on or prior to such first anniversary at 1.5 times the rate fixed for the first interest period; and

“AA” means USD100,000 (or its equivalent in the currency of the Guarantee Amount) representing an additional amount to guarantee the payments of the Issuer to be due under the Trust Deed but not under the Securities.

For Subordinated Notes with a variable or partial redemption amount or for Subordinated Notes (other than Floating Rate Notes) where the amount of interest is not determinable at the Issue Date (“Variable Notes”), the Guarantee Amount will be signed between the Guarantor and the relevant Dealer on or before the Issue Date.

[Final Terms annexed]

THE SCHEDULE

Issuer:..... [Zurich Finance (Luxembourg) S.A.] [Zurich Finance (USA), Inc.] [Zurich Finance (UK) plc] [Zurich Bank]

Title of Subordinated Notes being issued: [Specify details of the Notes (including whether the Notes are Dated or Undated Subordinated Notes)]

Date of issue of relevant Tranche: []

Guarantee Amount:..... []

Place of payment and specified currency for the purposes of Clause 1(e):..... []

Taxation

United States Taxation (in respect of Notes issued by ZF (USA))

Certain US Federal Income Tax Consequences

The following is a general discussion of the material US Federal income tax considerations applicable to initial Non-US Holders of the Notes issued by ZF (USA). This summary is based upon current provisions of the Internal Revenue Code of 1986, as amended (the “Code”), regulations of the Treasury Department (“Treasury Regulations”), administrative rulings and pronouncements of the Internal Revenue Service (“IRS”) and judicial decisions currently in effect, all of which are subject to change, possibly with retroactive effect.

For purposes of this discussion, a “US person” means (i) a citizen or resident (as defined in Section 7701(b)(1) of the Code) of the United States, (ii) a corporation or other entity taxable as a corporation created or organized under the laws of the United States or any State thereof (including the District of Columbia), (iii) an estate or trust described in Section 7701(a)(30) of the Code, or (iv) a person whose worldwide income or gain is otherwise subject to US Federal income taxation on a net income basis and a “Non-US Holder” means any beneficial owner of a Note that is not a US person.

The following discussion is based upon certain of the facts set forth in this Base Prospectus and other documents related to the issuance of Notes and upon compliance with the provisions thereof and the representations and agreements therein. This discussion is based on representations to the Issuers by the Dealers that they have in effect procedures reasonably designed to ensure that their employees or agents who are directly engaged in selling the Notes are aware that the Bearer Notes cannot be offered or sold during the restricted period (or resold in connection with the original issue) to a person who is within the United States or its possessions or who is a United States person, except as permitted by the Treasury Regulations.

To ensure compliance with US Treasury Department Circular 230, Noteholders are hereby notified that: (A) any discussion of US Federal tax issues in this Base Prospectus is not intended or written to be relied upon, and cannot be relied upon, by Noteholders for the purpose of avoiding penalties that may be imposed on Noteholders under the Code, (B) such discussion is included herein by the Issuers in connection with the promotion or marketing (within the meaning of Circular 230) by the Issuers and the Dealers of the transactions or matters addressed herein and (C) Noteholders should seek tax advice based on their particular circumstances from an independent tax advisor.

The tax discussion set forth below is included for general information only and may not be applicable depending upon a Noteholder’s particular situation. In addition, the discussion does not consider the effect of any foreign, state, local, gift, estate or other tax laws that may be applicable to a particular investor. Noteholders are urged to consult their own tax advisors with respect to the particular consequences to them of holding and disposing of Notes in light of their own particular circumstances including the tax consequences under local, state, foreign and other tax laws and possible effects of changes in united states federal income or other tax laws.

Taxation of Non-US Holders

Under present US Federal income and estate tax laws and subject to the discussion of backup withholding below:

- (a) A Non-US Holder generally will not be subject to the US Federal income or withholding tax on payments of interest on a Note (including OID), provided that (i) the holder is not (A) a direct or indirect owner of 10 per cent or more of the total voting power of all voting stock of the relevant Issuer or (B) a controlled foreign corporation related to the relevant Issuer through stock ownership, (ii) such interest payments are not effectively connected with the conduct by the Non-US Holder of a trade or business within the United States, (iii) the Holder is not a bank receiving interest described in Section 881(c)(3)(A) of the Code (iv) the interest is not contingent interest described in Section 871(h)(4) of the Code, related primarily to interest based on or determined by reference to income, profits, cash flow and other comparable attributes of the obligor or a party related to the obligor and (v) for Notes issued on or after 19 March 2012, the Note must be issued in registered form.
- (b) A Non-US Holder generally will not be subject to US Federal income or withholding tax on gains from the sale or other disposition of a Note, provided that (i) such gains are not effectively connected with the conduct by the Non-US Holder of a trade or business within the United States and (ii) such Non-US Holder is not an individual who is present in the United States for 183 days or more in the taxable year of disposition and meets certain other requirements; and
- (c) Any Note or coupon beneficially owned by an individual who at the time of death is not a citizen or resident of the US will not be subject to US Federal estate tax provided that, at the time of death, such individual does not actually or constructively own 10 per cent or more of the total combined voting power of the relevant Issuer entitled to vote and interest on the Notes or coupon was not effectively connected with a US trade or business conducted by such individual.

If a Non-US Holder cannot satisfy the requirements of the “portfolio interest” exception described in (a) above, payments of premium, if any, and interest made to such Non-US Holder will be subject to a 30 per cent withholding tax unless such holder provides the relevant Issuer or its paying agent as the case may be with a properly executed (1) IRS Form W8BEN claiming an exemption from withholding under the benefit of a tax treaty or (2) IRS Form W8ECI stating that interest paid on the Note is not subject to withholding tax because it is effectively connected with the holder’s conduct of a trade or business in the United States.

If a Non-US Holder is engaged in a trade or business in the United States and premium, if any, or interest on the Notes is effectively connected with the conduct of such trade or business, such holder, although exempt from the withholding tax discussed above, will be subject to United States Federal income tax on such interest on a net income basis in the same manner as if it were a US person. In addition, if such Non-US Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30 per cent of its effectively connected earnings and profits for the taxable year, subject to adjustments. For this purpose, premium, if any, and interest on a Note will be included in such foreign corporation’s earnings and profits.

The recently enacted Hiring Incentives to Restore Employment Act of 2010 (the “2010 HIRE Act”) may impose additional US withholding tax requirements for a Note issued after 18 March 2012. Under the 2010 HIRE Act, a Non-US Holder may be subject to a 30 per cent US withholding tax on a payment made after 31 December 2012 of interest on such a Note, or gross proceeds from the disposition of such a Note, if the payment is made to (i) a “foreign financial institution” that does not meet certain US tax reporting requirements regarding its US account holders or (ii) a non-US entity that is not a “foreign financial institution” if the non-US entity does not disclose to the IRS the name, address and taxpayer identification number of any substantial US owners (or certify that it does not have any substantial US owners), and income from the payment is not effectively connected with a US trade or business. A refund or credit may be available to the extent the payment is otherwise exempt from US tax (*eg*, if the portfolio interest exemption applies), unless the beneficial owner is a “foreign financial institution” not exempt from withholding under an applicable treaty.

Information Reporting and Backup Withholding

A holder of a Note may be subject to backup withholding at a rate of 28 per cent with respect to interest paid on the Note and proceeds from the sale, exchange, redemption or retirement of the Note, unless such holder (i) is a corporation or comes within certain other exempt categories and, when required, demonstrates that fact or (ii) provides a correct taxpayer identification number (social security number or employer identification number), certifies as to its exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Furthermore, the 2010 HIRE Act imposes additional reporting requirements for individuals generally applicable to tax years beginning after 18 March 2010. Under these new requirements, an individual holder of a “specified foreign financial asset” may be required to disclose certain information relating to the holder’s interest in such asset for any taxable year in which the aggregate value of all the holder’s “specified foreign financial assets” is greater than \$50,000. A specified foreign financial asset includes any “financial account” maintained by a “foreign financial institution” which may include debt of the institution not regularly traded on an established security market, and any Note issued by a non-US person if it is not held in an account maintained by a financial institution. There is currently some uncertainty as to what extent a non-US insurance company will be considered to be a “foreign financial institution” under the recently enacted legislation. Certain penalties may be imposed by the IRS on a holder that is required to supply information but does not do so in the proper manner.

A Non-US Holder generally will be exempt from backup withholding and information reporting requirements, but may be required to comply with certification and identification procedures in order to obtain an exemption from backup withholding and information reporting.

Any amount withheld under the backup withholding rules from a payment to a holder is allowable as a credit against such holder’s US Federal income tax (which might entitle such holder to a refund), provided that such holder furnishes the required information to the IRS.

Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

(a) Taxation of non-resident holders of Notes

(i) Withholding tax

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments (the **EU Savings Directive**) and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it is currently levied at a rate of 20 per cent and will be levied at a rate of 35 per cent as of 1 July 2011. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 20 per cent.

(ii) Income tax

A non-resident holder of Notes, not having a permanent establishment or permanent representative in Luxembourg to which such Notes are attributable, is not subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes. A gain realised by such non-resident holder of Notes on the sale or disposal, in any form whatsoever, of the Notes is further not subject to Luxembourg income tax.

A non-resident corporate holder of Notes or an individual holder of Notes acting in the course of the management of a professional or business undertaking, who has a permanent establishment or permanent representative in Luxembourg to which such Notes are attributable, is subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes and on any gains realised upon the sale or disposal, in any form whatsoever, of the Notes.

(iii) Net wealth tax

A non-resident corporate holder of Notes, who maintains a permanent establishment or a permanent representative in Luxembourg to which such Notes are attributable, may be subject to Luxembourg wealth tax on such Notes.

An individual holder of Notes, whether he/she is resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Notes.

(iv) Other taxes

The issue of Notes will not be subject to a Luxembourg registration or stamp duty. The transfer or sale of such Notes will not be subject to a Luxembourg registration or stamp duty.

Gift tax may be due on a gift or donation of Notes if embodied in a Luxembourg deed or recorded in Luxembourg.

(b) Taxation of resident holders of Notes

(i) Withholding tax

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended, (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

(ii) *Income tax*

A corporate holder of Notes must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realised on the sale or disposal, in any form whatsoever, of the Notes, in its taxable income for Luxembourg income tax assessment purposes. The same inclusion applies to an individual holder of Notes, acting in the course of the management of a professional or business undertaking.

A holder of Notes that is governed by the law of 31 July 1929, on pure holding companies, as amended,¹ or by the law of 11 May 2007 on family estate management companies, or by the law of 20 December 2002 on undertakings for collective investment, as amended, or by the law of 13 February 2007 on specialised investment funds, is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium or issue discount, nor on gains realised on the sale or disposal, in any form whatsoever, of the Notes.

An individual holder of Notes, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts, under the Notes, (i) except if withholding tax has been levied on such payments in accordance with the Law, or (ii) the individual holder of the Notes has opted for the application of a 10 per cent tax in full discharge of income tax in accordance with the Law, which applies if a payment of interest has been made or ascribed by a paying agent established in a EU Member State (other than Luxembourg), or in a Member State of the European Economic Area (other than a EU Member State), or in a state that has entered into a treaty with Luxembourg relating to the EU Savings Directive. A gain realised by an individual holder of Notes, acting in the course of the management of his/her private wealth, upon the sale or disposal, in any form whatsoever, of Notes is not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the Notes were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax, if such interest is indicated separately in the agreement or if the Notes constitute Zero Coupon Notes except if withholding tax has been levied on such interest in accordance with the Law.

(iii) *Net wealth tax*

A corporate holder of Notes, who is a resident of Luxembourg for tax purposes, or who maintains a permanent establishment or a permanent representative in Luxembourg to which such Notes are attributable, is subject to Luxembourg wealth tax on such Notes, except if the holder of Notes is governed by the law of 31 July 1929 on pure holding companies, as amended, or by the law of 11 May 2007 on family estate management companies, or by the law of 20 December 2002 on undertakings for collective investment, as amended, or by the law of 13 February 2007 on specialised investment funds, or is a securitisation company governed by the law of 22 March 2004 on securitisation, or is a capital company governed by the law of 15 June 2004 on venture capital vehicles, as amended.

An individual holder of Notes, whether he/she is resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Notes.

(iv) *Other taxes*

The issue of Notes will not be subject to a Luxembourg registration or stamp duty. The transfer or sale of such Notes will not be subject to a Luxembourg registration or stamp duty.

Where a holder of Notes is a resident of Luxembourg for inheritance tax purposes at the time of his/her death, the Notes are included in his/her taxable estate for inheritance tax assessment purposes.

¹ *The law of 31 July 1929 has been abolished by a law of 22 December 2006. According to such law, existing pure holding companies governed by the law of 31 July 1929 continue to benefit from their favourable tax regime during a transitional period until 30 December 2010*

Gift tax may be due on a gift or donation of Notes if embodied in a Luxembourg deed or recorded in Luxembourg.

Swiss Taxation

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes who are in any doubt as to their tax positions should consult their professional advisers.

(a) Withholding Tax

Payments by the Issuers (other than ZIC), or by ZIC as Guarantor, of interest on, and repayment of principal of, the Notes, will not be subject to Swiss federal withholding tax, even though the Notes are guaranteed by ZIC as Guarantor, provided that the relevant Issuer uses the proceeds from the offering and sale of the Notes outstanding outside of Switzerland.

Payments of interest on Notes issued by ZIC will in general be subject to Swiss federal withholding tax at a rate of 35 per cent. Certain types of Notes issued by ZIC may classify as notes with a “predominant one-time interest payment” (*Obligationen mit überwiegender Einmalverzinsung*; see below “—Income Taxation on Principal or Interest”) under circular letter No. 15 issued by the Swiss federal tax authorities on 7 February 2007. A “one-time interest payment” will be subject to Swiss federal withholding tax upon redemption of the Notes. Restricted Notes may not be subject to the Swiss federal withholding tax.

A holder of a Note issued by ZIC who resides in Switzerland and who, at the time the payment of interest is due, is the beneficial recipient of the payment of interest and, in the case of a holder who is an individual, duly reports the gross payment of interest in his or her tax return and, in the case of a holder who is a legal entity or an individual required to keep accounting books, includes such payment as earnings in its income statement, is entitled to a full refund of or a full tax credit for the Swiss federal withholding tax. A holder of a Note issued by ZIC who does not reside in Switzerland may be able to claim a full or partial refund of the Swiss federal withholding tax by virtue of the provisions of an applicable double taxation treaty, if any, between Switzerland and the country of residence of such holder.

(b) Stamp Taxes

The issue and redemption of Notes by the Issuers (other than ZIC) and the issue of the Guarantee by ZIC as Guarantor are not subject to Swiss federal stamp duty on the issue of securities, even though the Notes are guaranteed by ZIC as Guarantor, provided that the Issuer uses the proceeds from the offering and sale of the Notes outstanding outside of Switzerland.

The issue of Notes by ZIC, but not their redemption, is in general subject to Swiss federal stamp duty on the issue of securities, in the case of Notes issued with a maturity of twelve months or less, at a rate of 0.06 per cent. of the aggregate nominal amount of the Notes, calculated for each day of the whole term of the Note on the basis of 1/360th of such tax rate or, in the case of Notes with a maturity in excess of twelve months, at a rate of 0.12 per cent. of the aggregate nominal amount of the Notes for each year from the date of issue of the Notes until maturity, parts of a year being treated, for such purposes, as a whole year. Restricted Notes may not be subject to the Swiss federal stamp duty on the issue of securities.

Dealings in Notes with a maturity in excess of 12 months where a Swiss domestic bank or a Swiss domestic securities dealer (as defined in the Swiss federal stamp duty act) is a party, or acts as an intermediary, to the transaction may be subject to Swiss federal stamp duty on dealings in securities at a rate of up to 0.3 per cent. of the purchase price of the Notes. at a rate of up to 0.15 per cent. of the purchase price of the Notes in the case of Notes issued by ZIC and at a rate of up to 0.3 per cent. of such purchase price in the case of Notes issued by the other Issuers. Where both the seller and the purchaser of the Notes (whether or not issued by ZIC) are non-residents of Switzerland or the Principality of Liechtenstein, no Swiss federal stamp duty on dealing in securities is payable. Restricted Notes may not be subject to the Swiss federal stamp duty on the issue of securities.

(c) Income Taxation on Principal or Interest

(i) Notes held by non-Swiss holders

Payments by the Issuers (other than ZIC), or by ZIC as Guarantor, of interest and repayment of principal to, and gain realised on the sale or redemption of Notes by, a holder of Notes who is not a resident of Switzerland and who during the current taxation year has not engaged in trade or business through a permanent establishment or a fixed place of business in Switzerland to which such Note is

attributable and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax.

(ii) *Notes held by Swiss resident holders as private assets*

Notes without a “predominant one-time interest payment”: Individuals who reside in Switzerland and who hold Notes as private assets without a predominant one-time interest payment are required to include all payments of interest on such Notes in their personal income tax return and will be taxable on any net taxable income (including the payments of interest on the Notes) for the relevant tax period. Notes without a predominant one-time interest payment are bonds the yield-to-maturity of which predominantly derives from periodic interest payments and not from a one-time-interest-payment.

Notes with a “predominant one-time interest payment”: If the yield-to-maturity of a Note predominantly derives from a one-time-interest-payment such as an original issue discount or a repayment premium and not from periodic interest payments, then a holder who is an individual resident in Switzerland holding such bond as a private asset, is required to include in his personal income tax return for the relevant tax period any periodic interest payments received on the Notes and, in addition, any amount equal to the difference between the value of the bond at redemption or sale, as applicable, and the value of the bond at issuance or secondary market purchase, as applicable, realised on the sale or redemption of such bond, and converted into Swiss Francs at the exchange rate prevailing at the time of sale or redemption, issuance or purchase, respectively, and will be taxable on any net taxable income (including such amounts) for the relevant tax period. Any value decreases realised on such a Note on sale or redemption may be offset by such a holder against any gains (including periodic interest payments) realised by him within the same taxation period from other instruments with a predominant one-time interest payment.

Capital gains and losses: Swiss resident individuals who sell or otherwise dispose of privately held Notes realise either a tax-free private capital gain or a non-tax-deductible capital loss. See the preceding paragraph for a summary of the tax treatment of a gain or a loss realised on Notes with a “predominant one-time interest payment.” See “Notes held as Swiss business assets” below for a summary on the tax treatment of individuals classified as “professional securities dealers.”

(iii) *Notes held as Swiss business assets*

Individuals who hold Notes as part of a business in Switzerland and Swiss-resident corporate taxpayers and corporate taxpayers residing abroad holding Notes as part of a Swiss permanent establishment or fixed place of business in Switzerland, are required to recognise the payments of interest and any capital gain or loss realised on the sale or other disposition of such Notes in their income statement for the respective tax period and will be taxable on any net taxable earnings for such period. The same taxation treatment also applies to Swiss-resident individuals who, for income tax purposes, are classified as “professional securities dealers” for reasons of, *inter alia*, frequent dealings and leveraged transactions in securities.

United Kingdom Taxation

The following is a summary of the United Kingdom withholding taxation treatment and reporting obligations based on UK law and HM Revenue & Customs published practice at the date hereof in relation to payments of interest in respect of the Notes. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Notes (and for the avoidance of doubt do not include consideration of direct taxation of income on which tax may or may not be withheld). The comments are made on the assumption that none of ZF (Luxembourg), ZF (USA), Zurich Bank and ZIC is resident in the United Kingdom for United Kingdom tax purposes, is issuing the Notes for the purposes of or in the course of a trade or other business carried on by it in the United Kingdom or pays interest on the Notes which has a United Kingdom source. The comments relate only to the position of persons who are absolute beneficial owners of the Notes (and may not apply to certain classes of Noteholders (such as dealers and persons who are connected or associated with the Issuer for relevant tax purposes)). Prospective Noteholders should be aware that the particular terms of issue of any series of Notes as specified in the relevant Final Terms may affect the tax treatment of that series and other Tranches of Notes. The following is a general guide and should be treated with appropriate caution. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

(a) Interest on the Notes issued by ZF (UK)

The Notes issued by ZF (UK) which carry a right to interest will constitute “quoted Eurobonds” within the meaning of section 987 of the UK Income Tax Act 2007 (the “**Act**”) as long as they are and continue to be listed on a “recognised stock exchange” within the meaning of section 1005 of the Act. Securities will be treated as listed on a recognised stock exchange if (and only if) they are admitted to trading on that exchange (the regulated market of the Luxembourg Stock Exchange is a recognised stock exchange for these purposes) and either they are included in the United Kingdom Official List (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange.

Accordingly, payments of interest on such Notes issued by ZF (UK) may be made without withholding for or on account of UK income tax provided such Notes are and remain so listed and admitted to trading at the time of payment.

In all other cases, interest on the Notes issued by ZF (UK) may fall to be paid under deduction of United Kingdom income tax at the basic rate, which is currently 20 per cent, subject to such relief as may be available under an applicable double taxation treaty or to any other exemption which may apply. However, this withholding will not apply if the relevant interest is paid on Notes issued by ZF(UK) with a maturity date of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such Notes part of a borrowing with a total term of a year or more.

(b) Payments by guarantor

If any payments are made pursuant to a Senior ZIC Guarantee or a Subordinated ZIC Guarantee in respect of interest on Notes issued by ZF (UK) (or other amounts due under such Notes other than the repayment of amounts subscribed for the Notes) such payments may be subject to United Kingdom withholding tax at the basic rate, which is currently 20 per cent, subject to the availability of relief under the provisions of any applicable double taxation treaty or to any other exemption which may apply (although such payments may not be eligible for the exemptions described in paragraph (a) above).

(c) Provision of information

Noteholders should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by ZF (UK) or any person in the United Kingdom acting on behalf of ZF (UK), ZF (Luxembourg), ZF (USA), Zurich Bank or ZIC (a “**paying agent**”), or is received by any person in the United Kingdom acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a “**collecting agent**”), then ZF (UK), the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HM Revenue and Customs details of the payment and certain details relating to the Noteholder (including the Noteholder’s name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. In certain circumstances, the details provided to HM Revenue and Customs may be passed by HM Revenue and Customs to the tax authorities of certain other jurisdictions.

For the purposes of this paragraph (c), “interest” should be taken, for practical purposes, as including payments made by a guarantor in respect of interest on Notes.

With effect from 6 April 2011, the provisions referred to in this paragraph (c) may also apply, in certain circumstances, to payments made on redemption of any Notes where the amount payable on redemption is greater than the issue price of the Notes.

(d) Other rules relating to United Kingdom withholding tax

Notes issued by ZF (UK) may be issued at an issue price of less than 100 per cent of their principal amount. Any discount element on any such Notes should not be subject to any United Kingdom withholding tax pursuant to the provisions mentioned in (a) above, but may be subject to reporting requirements as outlined in (c) above and in “EU Savings Directive” below.

Where Notes issued by ZF (UK) are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax, and to reporting requirements as outlined in (c) above and in “EU Savings Directive” below.

The references to “interest” in this United Kingdom Taxation section above mean “**interest**” as understood in United Kingdom tax law. Such statements do not take any account of any different definitions of “interest” or “principal” which may prevail under any

other law or which may be created by the terms and conditions of the Notes or any related documentation (e.g. see Condition 5(d) of the Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes).

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of an issuer pursuant to Condition 14 of the Notes or otherwise and does not consider the tax consequences of any such substitution.

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty and the relevant Noteholder successfully completes a claim for recovery of tax deducted under such double taxation treaty.

Ireland Taxation

The following is a general summary of Zurich Bank's understanding of the current law and practice in Ireland relating to the taxation of Notes issued under the Programme. The summary relates only to the position of the persons who are the absolute beneficial owners of Notes and the interest on them and some aspects may not apply to certain classes of taxpayers (such as dealers). Prospective Noteholders should be aware that the particular terms of issue of any series of Notes as specified in the relevant Final Terms may affect the tax treatment of that and other series of Notes. This summary does not constitute tax or legal advice and the comments below are of a general nature only. Holders of Notes should seek their own professional advice as to their tax position.

(a) Liability of holders of Notes to Irish income tax

Persons resident in Ireland for the purposes of Irish tax are subject to Irish tax on their worldwide income, which would include interest paid (premium on redemption is treated as interest for this purposes) and discounts realised on the Notes (whether issued by Zurich Bank or another Issuer).

A company that is not resident in Ireland for the purposes of Irish tax but operates in Ireland through a branch or agency to which any Notes are attributable (whether issued by Zurich Bank or another Issuer) is subject to Irish corporation tax in respect of interest paid and discounts realised on the Notes.

Persons not resident in Ireland for the purposes of Irish tax are subject to Irish income tax on interest payable and discounts realised on Notes issued by Zurich Bank, unless one of the following exemptions is available:

- (i) A company which is not resident in Ireland for the purposes of Irish tax will not be chargeable to income tax in respect of interest paid in the ordinary course of business of Zurich Bank on the Notes if the company is resident in a Member State of the European Union under the laws of that Member State or in a territory with which Ireland has signed a double tax treaty and where that Member State or territory imposes a tax that generally applies to interest receivable from sources outside that Member State or territory, or where the interest paid would be exempted from the charge to income tax under a double taxation treaty that is in effect or, if not yet in effect, that has been signed between Ireland and the territory in which the company is a resident for tax purposes.
- (ii) A person (whether or not a company) who is not resident in Ireland for the purposes of tax will not be chargeable to income tax in respect of interest received or discounts realised on the Notes if the person is resident in a Member State of the European Union under the laws of that Member State or in a territory with which Ireland has signed a double tax treaty; and in the case of interest only, the interest is paid on:
 - (1) a Quoted Eurobond (as defined below); or
 - (2) a Wholesale Debt Instrument (as defined below)

A Note issued by Zurich Bank will qualify for exemption from withholding tax on interest as a “**Quoted Eurobond**” if:

- (i) it is quoted on a recognised stock exchange;
- (ii) it carries a right to interest; and
- (iii) one of the following conditions is satisfied:

- (A) the person by or through whom the payment is made is not in Ireland; or
- (B) the payment is made by or through a person in Ireland, and either:
 - (1) the Note is held in a recognised clearing system (Euroclear, Clearstream, Luxembourg and SIS are recognised for this purpose); or
 - (2) the person who is the beneficial owner of the Note and who is beneficially entitled to the interest is non-Irish resident and has made a declaration of non-Irish residence in the form required by the Irish Revenue Commissioners.

A Note issued by Zurich Bank will qualify for exemption from withholding tax on interest as a **“Wholesale Debt Instrument”** if:

- (i) it matures within two years;
- (ii) it has a minimum denomination of 500,000 if denominated in euro, USD500,000 if denominated in US dollars or, in the case of Debt Obligations which are denominated in a currency other than euro or US dollars, the equivalent in that other currency of 500,000 (such amount to be determined by reference to the relevant rate of exchange at the date of the first publication of this program); and
- (iii) one of the following conditions is satisfied:
 - (A) the Wholesale Debt Instrument is held in a recognised clearing system; or
 - (B) the payment is made by or through a person resident in Ireland or through a branch or agency through which a company not resident in Ireland carries on a trade or business in Ireland, and:
 - (1) the person who is beneficially entitled to the interest is resident in Ireland for the purposes of tax and has provided their Irish tax reference number to the Issuer; or
 - (2) the person who is the beneficial owner of the security and who is beneficially entitled to the interest thereon is not resident in Ireland for the purposes of tax and has made a declaration to that effect in the prescribed form.

(b) Withholding tax

Irish tax legislation requires licensed banks such as Zurich Bank to withhold deposit interest retention tax (**“DIRT”**) on the payment of interest or discounts on certain “deposits”. The term **“deposit”** is widely defined and would include Notes issued by Zurich Bank. There are a number of exceptions to the requirement to withhold tax, of which the most relevant are as follows:

- (i) The interest or discount is paid on a Note which is listed on a stock exchange.
- (ii) The interest or discount is paid on a Note that is held in a recognised clearing system (see above) in a denomination of not less than USD500,000 or 500,000, or if denominated in any currency other than US dollars or Euro, not less than the equivalent of 500,000 in that other currency at the date the programme is first publicised and such Note:
 - (A) recognises an obligation to pay a stated amount;
 - (B) matures within two years of the date of issue; and
 - (C) carries a right to interest, is issued at a discount, or is issued at a premium.

Where Notes issued by Zurich Bank are not listed on a recognised stock exchange and do not mature within two years of the date of issue, the Irish Revenue Commissioners operate a published practice which remains in force and effect as of the date hereof whereby DIRT which would otherwise be applicable will not apply to interest or other returns paid to persons not resident in Ireland who are beneficially entitled to the interest or other returns and where such Notes are issued to persons not resident in Ireland, subject to certain specified conditions. These conditions require that:

- (i) the issuer will not sell any of the Notes to Irish residents and will not offer such Notes in Ireland;
- (ii) interest on the Notes is paid by a paying agent located outside of Ireland;

- (iii) the Dealers must undertake as a matter of contract with Zurich Bank that they will not knowingly make primary sales of the Notes to Irish residents or persons whose usual place of abode is Ireland (with a statement to that effect being included in the relevant offering documentation);
- (iv) the Notes are cleared through a recognised clearing system (see above); and
- (v) the minimum denomination in which the Notes issue is made will be 500,000 or its equivalent.

Irish tax legislation contains, in addition to withholding tax on deposit interest, a general withholding tax at the rate of 20 per cent which may apply if the withholding tax on deposit interest does not apply. No withholding tax applies where a Note issued by Zurich Bank qualifies for exemption as a Quoted Eurobond (see above). In the case of Notes issued by Zurich Bank that do not qualify for exemption as a Quoted Eurobond (for instance, Notes which are not listed) no withholding tax applies to interest in respect of Notes, where such interest payments are made in the ordinary course of the Zurich Bank's bona fide banking business carried on in Ireland.

(c) Encashment tax

Interest on any Notes issued by Zurich Bank which qualify for an exemption from withholding tax on interest as a Quoted Eurobond (see above) paid to or realised by an agent in Ireland on behalf of a holder of the relevant Note will be subject to a withholding in respect of Irish income tax at the standard rate of Irish income tax (at the date of this Base Prospectus being 20 per cent) unless the beneficial owner of the relevant Note that is entitled to the interest is not resident for tax purposes in Ireland and makes a declaration in the required form.

Interest on any Note issued by an Issuer other than Zurich Bank will be subject to a withholding in respect of Irish income tax at the standard rate of Irish income tax (at the date of this Base Prospectus being 20 per cent) if paid by a paying agent in Ireland. This is unless the beneficial owner of the relevant Note that is entitled to the interest is not resident for tax purposes in Ireland and makes a declaration in the required form.

(d) Capital gains tax

Provided the Notes are listed on a recognised stock exchange, or the Notes do not derive their value, or the greater part of their value from certain Irish land or mineral rights, then a Noteholder will not be subject to Irish tax on capital gains provided that such Noteholder is neither resident nor ordinarily resident in Ireland and such Noteholder does not have an enterprise, or an interest in an enterprise, which carries on business in Ireland through a branch or agency, or a permanent representative, to which or to whom the Notes are attributable

The rate of capital gains tax at the date of this Base Prospectus is 25 per cent.

(e) Capital acquisitions tax

If the Notes issued by Zurich Bank are comprised in a gift or inheritance taken from an Irish resident or ordinarily resident disponent or if the disponent's successor is resident or ordinarily resident in Ireland, or if any of the Notes (whether issued by Zurich Bank or not) are regarded as property situated in Ireland, the disponent's successor may be liable to capital acquisitions tax.

The Notes if issued in bearer form would be regarded as property situate in Ireland if they were ever to be physically kept or located in Ireland with a depositary or otherwise. The Notes if issued in registered form would be regarded as property situate in Ireland if the principal register of the Notes is maintained in Ireland.

The rate of capital acquisition tax at the date of this Base Prospectus is 25 per cent.

(f) Stamp duty

No Irish stamp duty will be payable on the issue of the Notes nor will Irish stamp duty be chargeable on the transfer by delivery of Notes.

In the event of a written transfer of Notes issued by Zurich Bank no Irish stamp duty is chargeable provided that such Notes:

- (i) do not carry a right of conversion into stocks or marketable securities (other than loan capital) of a company having a register in Ireland or into loan capital having such a right,
- (ii) do not carry rights of the same kind as shares in the capital of a company, including rights such as voting rights, a share in the profits or a share in the surplus upon liquidation,
- (iii) are issued for a price which is not less than 90 per cent of their nominal value (e.g. Notes issued at a discount such as Zero Coupon Notes may not qualify for this exemption), and
- (iv) do not carry a right to a sum in respect of repayment or interest which is related to certain movements in an index or indices (based wholly or partly and directly or indirectly on stocks or marketable securities) specified in any instrument or other document relating to the Notes (thus the Indexed Notes would be excluded from this exemption).

No stamp duty will be payable on redemption of the Notes.

Where an exemption does not apply, a written transfer of a Note issued by Zurich Bank (wherever executed) is liable to Irish stamp duty at the rate of 1 per cent of the consideration paid under the transfer (or, if greater, the market value of the Note).

EU Savings Directive disclosure

Under EC Council Directive 2003/48/EC on taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Also a number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission, the Council of the European Union and the European Parliament are considering a number of proposals to amend EC Council Directive 2003/48/EC. If any of the proposed changes are made to the Directive, they may amend or broaden the scope of the requirement discussed above.

In accordance with the agreement between Switzerland and the EU on the taxation of savings income, which is in force since July 1, 2005, Swiss paying agents have to withhold tax at a rate of 20 per cent, until June 30, 2011 and at a rate of 35 per cent, thereafter on interest payments made under the Notes to a beneficial owner who is an individual and resident of an EU member state, with the option of the individual to have the paying agent and Switzerland provide to the tax authorities of the EU member state the details of the interest payments in lieu of the withholding.

Subscription and Sale

The Dealers have in an amended and restated dealer agreement (as further amended or supplemented from time to time, the “**Dealer Agreement**”) dated 11 June 2010 agreed with the Issuers as the basis upon which they or any of them may from time to time agree to subscribe for Notes. Any such agreement will extend to those matters stated under “Form of the Notes and the Capital Notes”, “Terms and Conditions of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes” and “Terms and Conditions of the Capital Notes” above. In the Dealer Agreement, the Issuers have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme.

United States

The Notes have not been and will not be registered under the US Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S under the US Securities Act) except in accordance with Regulation S under the US Securities Act or pursuant to an exemption from the registration requirements of the US Securities Act.

Notes in bearer form are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to US persons, except in certain transactions permitted by US tax regulations. Terms used in the preceding sentence have the meanings given to them by the United States Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will offer, sell and deliver Notes (i) as part of their distribution at any time and (ii) otherwise until forty days after the completion of the distribution of all Reg. S Notes of the Tranche of which such Notes are a part, only in accordance with Rules 903 and 904 of Regulation S under the US Securities Act, and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Reg. S Notes from it or through it during the distribution compliance period a confirmation or notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, US persons. Terms used in the above paragraph have the meanings given to them by Regulation S.

Each issuance of index, commodity or currency-linked Notes shall be subject to additional US selling restrictions as the relevant Dealer or Dealers shall agree as a term of the issuance and purchase of such Notes. Each Dealer agrees that it shall offer, sell and deliver such Notes only in compliance with such additional US selling restrictions.

The Notes are being offered and sold only outside the United States to persons other than US persons (“**foreign purchasers**,” which term includes dealers or other professional fiduciaries in the United States acting on a discretionary basis for foreign beneficial owners, other than an estate or trust) in reliance upon Regulation S. As used in this discussion of “Subscription and Sale” — “United States”, the terms “**United States**” and “**US person**” have the meanings given to them in Regulation S.

Each purchaser of Notes will be deemed to have represented and agreed as follows:

- (1) It is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a foreign purchaser that is outside the United States (or a foreign purchaser that is a dealer or other fiduciary as referred to above).
- (2) It acknowledges that the Notes have not been registered under the US Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except as set forth below.
- (3) It agrees that the Issuer has no obligation to register the Notes under the US Securities Act.
- (4) It will not resell or otherwise transfer any Notes within two years after the original issuance of the Notes except (A) to the Issuer, (B) outside the United States in compliance with Rule 904 under the US Securities Act, (C) pursuant to the exemption from registration provided by Rule 144 under the US Securities Act (if available) or (D) pursuant to an effective registration statement under the US Securities Act.
- (5) It will give to each person to whom it transfers Notes notice of any restrictions on transfer of those Notes.

- (6) It understands that the Reg. S Notes offered will be represented by a Reg. S Global Notes. Before any interest in a Reg. S. Global Note may be offered, sold, pledged or otherwise transferred to a person who is not a foreign purchaser, the transferee will be required to provide the Trustee with a written certification (the form of which certification can be obtained from the Trustee) as to compliance with the transfer restrictions referred to above.
- (7) It understands that each of the Reg. S Notes will bear a legend substantially to the following effect unless otherwise agreed by the Issuer and the holder of particular Notes:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE “**US Securities Act**”), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OF BENEFIT OF, US PERSONS. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT IT IS NOT A US PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE US SECURITIES ACT, (2) AGREES THAT IT WILL NOT, PRIOR TO THE DATE THAT IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUANCE OF THIS SECURITY AND THE LAST DATE ON WHICH THE ISSUER OF THIS SECURITY OR ANY AFFILIATED PERSON OF THE ISSUER WAS THE OWNER OF THIS SECURITY, RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT (A) TO THE ISSUER OR ANY SUBSIDIARY OF THE ISSUER, (A) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE US SECURITIES ACT, (B) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE US SECURITIES ACT (IF AVAILABLE), OR (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE US SECURITIES ACT AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED IN THIS STATEMENT, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “US PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE US SECURITIES ACT.

- (8) It will not sell or otherwise transfer Notes to, and each purchaser represents and covenants that it is not acquiring the Notes for or on behalf of, and will not transfer Notes to, any “employee benefit plan” as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974 (“**ERISA**”) which is subject to Title I of ERISA or any “plan” as defined in Section 4975 of the Code, which is subject to Section 4975 of the Code (in such case, a “**Plan**”), or any entity the assets of which constitute “plan assets” of any Plan for the purposes of ERISA or Section 4975 of the Code (a “**Plan Entity**”).
- (9) It acknowledges that the Trustee for the Notes will not be required to accept for registration of transfer any Notes acquired by it, except upon presentation of evidence satisfactory to the Issuer and the Trustee that the restrictions described above have been complied with.
- (10) It acknowledges that the Issuers, the Dealers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the acknowledgments, representations and agreements deemed to have been made by its purchase of Notes are no longer accurate, it will promptly notify the Issuer and the Dealers. If it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations, and agreements on behalf of each account.

Public Offering Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

- (b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, all as shown in its last annual or consolidated accounts;
- (c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3 (2) of the Prospectus Directive.

provided that no such offer of Notes referred to in (a) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Luxembourg

In addition to the cases described in the Public Offer Selling Registration under the Prospectus Directive in which the Issuer can make an offer of Notes to the public in a Relevant Member State (including the Grand Duchy of Luxembourg (“**Luxembourg**”), the Issuer can also make an offer of Notes to the public in Luxembourg:

- (a) at any time, to national and regional governments, central banks, international and supranational institutions (such as the International Monetary Fund, the European Central Bank, the European Investment Bank) and other similar international organisations;
- (b) at any time, to legal entities which are authorised or regulated to operate in the financial markets (including, credit institutions, investment firms, other authorised or regulated financial institutions, undertakings for collective investment and their management companies, pension and investment funds and their management companies, insurance undertakings and commodity dealers) as well as entities not so authorised or regulated whose corporate purpose is solely to invest in securities; and
- (c) at any time, to certain natural persons or small and medium-sized enterprises (as defined in the Luxembourg act dated 10 July 2005 relating to prospectuses for securities implementing the Prospectus Directive into Luxembourg law) recorded in the register of natural persons or small and medium-sized enterprises considered as qualified investors as held by the CSSF, as competent authority in Luxembourg in accordance with the Prospectus Directive.

Ireland

Each Dealer has represented and agreed (and each further Dealer appointed under the Programme will be required to represent and agree) that:

- (a) it has complied and will comply with the provision of the European Communities (Markets in Financial Instruments) Regulations 2007, as amended (the MiFID Regulations) if operating in or otherwise involving Ireland and, if acting under and within the terms of an authorisation to do so for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (MiFID), it has complied with any applicable requirements of the MiFID Regulations or as imposed, or deemed to have been imposed, by the Financial Regulator pursuant to the MiFID Regulations and, if acting within the terms of an authorisation granted to it for the purposes Directive 2006/48/EC of the European Parliament and the Council of the 14 June 2006 relating to the taking up and the pursuit of the business of credit institutions as amended, replaced or consolidated from time to time, it has complied with any codes of conduct or practice made under Section 117(1) of the Central Bank Act 1989 of Ireland (as amended) and any applicable requirements of the MiFID Regulations or as imposed pursuant to the MiFID Regulations;

- (b) it will not offer, sell, underwrite, place or do anything in Ireland in respect of any Notes otherwise than in compliance with the Market Abuse (Directive 2003/6/EC) Regulations 2005 of Ireland and any rules made by the Financial Regulator in Ireland pursuant thereto;
- (c) in respect of Notes issued by an Issuer (other than Zurich Bank) and which have an original maturity of less than one year, it shall not sell such Notes to the public in Ireland except in compliance with the exemption set out in Notice BSD C 01/02 of 12 November 2002 issued by the Central Bank of Ireland (now known as the Irish Financial Services Regulatory Authority as a constituent part of the Central Bank and Financial Services Authority of Ireland) or otherwise in circumstances which do not require the relevant Issuer to hold a licence in Ireland for the carrying on of banking business;
- (d) in respect of any Notes issued by Zurich Bank that are not listed on any recognised stock exchange and that do not mature within two years of the date of issue:
 - (A) its action in any jurisdiction will comply with the then applicable laws and regulations of that jurisdiction;
 - (B) it will not knowingly offer to sell such Notes to an Irish resident, or to persons whose usual place of abode is Ireland, and it will not knowingly distribute or cause to be distributed in Ireland any offering material in connection with such Notes;
 - (C) it will not offer, sell or deliver any such Notes to any person in a denomination of less than 50 0,000 or its equivalent; and
 - (D) such Notes will be cleared through a recognised clearing system;
- (e) in respect of any Notes issued by Zurich Bank that are not listed on any recognised stock exchange and that mature within two years of the date of issue, it will not offer, sell or deliver any such Notes to any person in a denomination of less than 500,000 if the Note is denominated in Euro, USD500,000 if the relevant Note is denominated in Dollars, or if the relevant Note is denominated in a currency other than Euro or Dollars, the equivalent of 500,000 at the date the Programme is first publicised and such Notes will be cleared through a recognised clearing system;
- (f) in respect of any local offer of Notes in Ireland, as defined in section 38 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland, it has complied with and will comply with section 49 of such Act.

United Kingdom

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) **No deposit-taking:** in relation to any Notes which have a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the relevant Issuer;

- (b) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the relevant Issuer or the Guarantor; and

- (c) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948 as amended, the “**FIEL**”) and disclosure under the FIEL has not been and will not be made with respect to the Notes. Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it has not, directly or indirectly, offered, sold, resold or otherwise transferred and will not, directly or indirectly, offer sell, resell or otherwise transfer any Notes or any interest therein, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering resale or otherwise transferring, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and all other applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply with all applicable laws and regulations in force in any country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes any offering material in relation to such Notes and will obtain any consent, approval or permission required by it for the subscription, offer, sale or delivery by it of Notes or possession or distribution of such offering material under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such subscription, offer or sale.

No Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the relevant Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

Form of Final Terms of the Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes

Final Terms dated

[Zurich Finance (Luxembourg) S.A*(/
Zurich Finance (USA), Inc./Zurich Finance (UK) plc/Zurich Bank/Zurich Insurance Company Ltd]
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
[Guaranteed by Zurich Insurance Company Ltd]
under the USD15,000,000,000
Euro Medium Term Note Programme
Part A Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [and the supplement to the Base Prospectus dated] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (*Directive 2003/71/EC*) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. [The Base Prospectus [and the supplement to the Base Prospectus] [is] [are] available for viewing at [website] [and] during normal business hours at [address] [and copies may be obtained from [address].]

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions contained in the Trust Deed dated [original date] and set forth in the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated] (the Conditions). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Base Prospectus dated [current date] [and the supplement to the Base Prospectus dated], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [original date] and [current date] [and the supplements to the Base Prospectus dated and]. [The Base Prospectuses [and the supplements to the Base Prospectus] are available for viewing at [website] [and] during normal business hours at [address] [and copies may be obtained from [address].]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

(* Include where ZF (Luxembourg) is the Issuer: *société anonyme* 45, rue des Scillas L-2529 Howald R.C.S. Luxembourg B.69.748.

1. [(i)] Issuer:	Zurich Finance (Luxembourg) S.A./Zurich Finance (USA), Inc./Zurich Finance (UK) plc/Zurich Bank/Zurich Insurance Company Ltd
[(ii)] Guarantor (not applicable to Notes issued by Zurich Insurance Company Ltd):	Zurich Insurance Company Ltd
2. [(i)] Series Number:	[]
[(ii)] Tranche Number:	[]
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible):	[]
3. Specified Currency or Currencies:	[]
4. Aggregate Nominal Amount of Notes admitted to trading:	[]
[(i)] Series:	[]
[(ii)] Tranche:	[]
5. Issue Price:	[] per cent of the Aggregate Nominal Amount [plus accrued interest from <i>[insert date]</i> (if applicable)]
6. Specified Denominations:**	[] [EUR 50,000 (or equivalent) and integral multiples of EUR 1,000 (or equivalent) in excess thereof up to and including EUR 99,000 (or equivalent). No Notes in definitive form will be issued with a denomination above EUR 99,000]*
Calculation Amount	[] [Notes issued under the Programme which may be listed on the Luxembourg Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system situated or operating in a member state of the European Union may not (a) have a minimum denomination of less than EUR 50,000 (or its equivalent in another currency), or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by ZF (USA), ZIC, ZF (UK), ZF (Luxembourg) or Zurich Bank or by any entity to whose group ZF (USA), ZIC, ZF (UK), ZF (Luxembourg) or Zurich Bank belongs.]
7. [(i)] Issue Date:	[]
[(ii)] Interest Commencement Date:	[] [Not Applicable]
8. Maturity Date (for dated Notes only):	<i>[specify date or (for Floating Rate Notes) Interest Payment Date falling in the relevant month and year/Not Applicable]</i>
9. [(i)] Interest Basis:	[] per cent Fixed Rate [[specify reference rate] +/- per cent Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (specify)] (further particulars specified below)
[(ii)] Optional Deferral of interest for Subordinated Notes:	[Applicable] [Not Applicable]
[(iii)] Optional Deferral limited to 5 years upon loss of regulatory capital credit	[Yes] [No]
[(iv)] Solvency Deferral of interest for Subordinated Notes	[Applicable] [Not Applicable]
[(v)] Relevant Entity	[ZIC] [ZFS]
[(vi)] Arrears of Interest payable at any time at Issuer's election	[Yes in whole [or in part] [No]

* This wording must be included in the case of an issue of Notes where the Specified Denominations are minimum denominations of EUR 50,000 (or equivalent) and integral multiples of EUR 1,000 (or equivalent).

** If the Maturity date of the Notes (including Notes denominated in sterling) is less than one year from the Issue Date and either (a) the issue proceeds are received by the relevant Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the relevant Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) or (ii) another applicable exemption from section 19 of the FSMA must be available.

10. Redemption/Payment Basis:

[Redemption at par]
[Index Linked Redemption]
[Dual Currency]
[Partly Paid]
[Instalment]
[Other (*specify*)]

11. Change of Interest or Redemption/Payment Basis:

[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]

12. Put/Call Options:

[Investor Put]
[Issuer Call]
[(further particulars specified below)]

13. [(i)] Status of the Notes:

[Unsubordinated/Subordinated] [*Insert details of any modifications to Conditions 2(b) or 2(c) including in respect of the ability to exercise or claim any right of set-off*]

[(ii)] Status of the Guarantee:

[Unsubordinated/Subordinated]

[(iii)] [Date [Board] approval for issuance of Notes [and] Guarantee] obtained:

[] [and []], respectively]]
(*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee*)

[(iv)] Guarantee Amount (for Notes issued by Zurich Finance (Luxembourg) S.A., Zurich Finance (USA), Inc., Zurich Finance (UK) plc or Zurich Bank only):

[]

14. Method of distribution:

[Syndicated/Non-syndicated]

15. Condition 7(b)(vi) to apply:

[Yes] [No]

16. Initial Permitted Non-Qualifying Lender[s]:

[]

Provisions Relating to Interest (if any) Payable

17. Fixed Rate Note Provisions

[Applicable/Not Applicable]
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i) Rate[(s)] of Interest:

[] per cent per annum [payable [annually/semi annually/quarterly/monthly/other (specify)] in arrear]

(ii) Interest Payment Date(s):

[] in each year

(iii) Fixed Coupon Amount[(s)]:

[] per Calculation Amount

(iv) Broken Amount(s):	[] per Calculation Amount payable on the interest Payment Date falling [in/on] []
(v) Day Count Fraction:	[30/360/Actual/Actual ([ICMA]/ISDA)/other]
(vi) Determination Dates:	[] in each year <i>(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA])</i>
(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
18. Floating Rate Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate)</i>
(i) Interest Period(s):	[]
(ii) Specified Interest Payment Dates:	[]
(iii) First Interest Payment Dates:	[]
(iv) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
(v) Additional Business Centre(s):	[]
(vi) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[]
(viii) Screen Rate Determination:	
– Reference Rate:	[]
– Interest Determination Date(s):	[]
– Relevant Screen Page:	[]
(ix) ISDA Determination:	
– Floating Rate Option:	[]
– Designated Maturity:	[]
– Reset Date:	[]
(x) Margin(s):	[+/-][] per cent per annum
(xi) Minimum Rate of Interest:	[] per cent per annum
(xii) Maximum Rate of Interest:	[] per cent per annum
(xiii) Day Count Fraction:	[]
(xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[]
19. Zero Coupon Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) [Amortisation/Accrual] Yield:	[] per cent per annum
(ii) Reference Price:	[]

- (iii) Any other formula/basis of determining amount payable: []
20. Index-Linked Interest Note/other *variable-linked interest Note Provisions* [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula/other variable: [give or annex details]
- (ii) Party responsible for calculating Rates of Interest and Interest Amount(s) (if not the [Agent]): []
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: []
- (iv) Determination Date(s): []
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: []
- (vi) Interest or calculation period(s): []
- (vii) Specified Interest Payment Dates: []
- (viii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
- (ix) Additional Business Centre(s): []
- (x) Minimum Rate/Amount of Interest: [] per cent per annum
- (xi) Maximum Rate/Amount of Interest: [] per cent per annum
- (xii) Day Count Fraction: []
21. Dual Currency Note Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [Insert name and address of Calculation Agent]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: []
- (iv) Person at whose option Specified Currency(ies) is/are payable: []

Provisions Relating to Redemption

22. Call Option [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [] per Calculation Amount
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [] per Calculation Amount
- (b) Maximum Redemption Amount: [] per Calculation Amount
- (iv) Notice period: []
- (v) Redemption of Subordinated Notes for Capital Event: [Applicable/Not Applicable]

(vi) Redemption of Subordination Notes for Regulatory Event:	[Applicable/Not Applicable]
(vii) Regular Redemption Price:	[] per Calculation Amount
(viii) Special Redemption Price:	[] per Calculation Amount
23. Put Option	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Optional Redemption Date(s):	[]
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[] per Calculation Amount
(iii) Notice period:	[]
24. Final Redemption Amount of each Note	[] per Calculation Amount
In cases where the Final Redemption Amount is Index-Linked or other variable-linked:	
(i) Index/Formula/variable:	<i>[give or annex details]</i>
(ii) Calculation Agent responsible for calculating the Final Redemption Amount:	[]
(iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[]
(iv) Determination Date(s):	[]
(v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[]
(vi) Payment Date:	[]
(vii) Minimum Final Redemption Amount:	[] per Calculation Amount
(viii) Maximum Final Redemption Amount:	[] per Calculation Amount
25. Early Redemption Amount:	
Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[]
[26. Instalment Amount:	[]]
27. Maturity Date of Dated Subordinated Notes extended upon a Solvency Event in accordance with Condition 6(a):	[Yes] [No]

General Provisions Applicable to the Notes

28. Form of Notes:	<p>Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on 40 days' notice/in the limited circumstances specified in the Permanent Global Note]</p> <p>[Temporary Global Note exchangeable for Definitive Notes]</p> <p>[Permanent Global Note exchangeable for Definitive Notes on 40 days' notice/in the limited circumstances specified in the Permanent Global Note]</p> <p>[In the case of Reg. S Notes whether the Notes are to be represented on issue by a Reg. S Global Note or by Individual Registered Notes]:</p> <p>[Reg. S Global Note exchangeable into Individual Registered Notes if requested by the holder upon not less than 40 days' notice/only in the limited circumstances described in the Base Prospectus] [Individual Registered Notes]</p>
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[In the case of Listed Swiss Franc Notes:]	[Permanent Global SIS Note]
29. New Global Note Form:	[Yes/No]
30. Payment Business Centre(s) or other special provisions relating to Payment Days for the purpose of Condition 5(c):	[Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 18(ii), 19(iv) and 21(ix) relate]
31. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. If yes, give details]
32. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/give details]
33. Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/give details]
34. Consolidation provisions:	
(i) Listed Swiss Franc Note:	[Yes/No]
(ii) Identity of Principal Paying Agent and other Paying Agents:	[]
35. Relevant Jurisdictions:	[Specify if different from those set out in Condition 6(b)]
36. Other final terms:	[Not Applicable/give details] (When adding any other final terms consideration should be given as to whether such terms constitute a “significant new factor” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)
37. Restricted Note (Condition 10(j) shall apply):	[Yes] [No]
(i) Restricted Note Minimum Denomination Amount	[]
(ii) Restricted Note Transfer Amount	[]
(iii) Number of Qualifying Banks	[]
Distribution	
38. (i) If syndicated, names of Managers:	[Not Applicable/give names]
(ii) Stabilising Manager(s) (if any):	[Not Applicable/give name]
39. If non-syndicated, name of Dealer:	[Not Applicable/give name]
40. US Selling Restrictions:	[Reg. S Compliance Category: TEFRA C/TEFRA D/TEFRA not applicable]
41. Additional selling restrictions:	[Not Applicable Regulation S category 1/Regulation S category 2/Regulation S category 3/give details]

[Listing and Admission to Trading Application

These Final Terms comprise the final terms required for listing on the Official List and for admission to trading on the regulated market of the Luxembourg/other stock exchange (*specify*) of the Notes described herein pursuant to the USD15,000,000,000 Euro Medium Term Note Programme of .]

Responsibility

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms. [(Relevant third party information) has been extracted from (specify source). The Issuer [and the Guarantor] confirm[s] that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (specify source), no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

By:.....
Duly authorised

[Signed on behalf of the Guarantor:

By:.....
Duly authorised]

PART B — OTHER INFORMATION

1. Listing and Admission to Trading

(i) Listing:

[Luxembourg/other (specify)/None].

[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [] with effect from [].] Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [] with effect from [].] [Not Applicable.] *(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)*

(ii) Admission to trading:

(iii) Estimate of total expenses related to admission to trading: []

2. Ratings

Ratings:

The Notes to be issued have been rated:

[S & P: []]

[Moody's: []]

[[Other]: []]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3 [Interests of Natural and Legal Persons Involved in the [Issue/Offer]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in [“Subscription and Sale”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

4. [Reasons for the Offer, Estimated Net Proceeds and Total Expenses

[(i) Reasons for the offer

[]

(See [“Use of Proceeds”] wording in Base Prospectus — if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]

[[ii)] Estimated net proceeds:

[]

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)]

[[iii)] Estimated total expenses:

[]. *[Include breakdown of expenses.]*

(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]

5. [Yield (Fixed Rate Notes only) Indication of yield:

[].

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. Performance of Index/Formula/other variable and other information concerning the underlying
(Index-Linked or other variable-linked Notes only)

This needs to include a statement setting out the type of the underlying and details of where information on the underlying can be obtained, and an indication where information about the past and further performance of the underlying and its volatility can be obtained.

- *Where the underlying is a security, the name of the issuer of the security and the ISIN (International Security Identification Number) or other such security identification code need to be provided.*
- *Where the underlying is an index, the name of the index and a description of the index if it is composed by the Issuer need to be provided. If the index is not composed by the Issuer need to include details of where the information about the index can be obtained.*
- *Where the underlying is an interest rate, a description of the interest rate need to be provided.*
- *Where the underlying does not fall within the categories specified above the securities note shall contain equivalent information.*
- *Where the underlying is a basket of underlyings, disclosure of the relevant weightings of each underlying in the basket need to be provided.*

Need to include a description of any market disruption or settlement disruption events that affect the underlying and adjustment rules in relation to events concerning the underlying (if applicable).]

7 [Performance of Rate[s] of Exchange (Dual Currency Notes only)

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]

8. Operational Information

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (i) ISIN Code: | [] |
| (ii) Common Code: | [] |
| (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme and the relevant identification number(s): | [Not Applicable/give name(s) and number(s)] |
| (iv) Delivery: | Delivery [against/free of] payment |
| Names and addresses of initial Paying Agent(s): | [] |
| (v) Names and addresses of additional Paying Agent(s) (if any): | [] |
| (vi).Intended to be held in NGN form: | [Yes] [No] [Note that the designation “yes” simply means that the Notes may upon issue to be deposited during their life. In order for the Notes to be eligible collateral for Eurosystem monetary policy, they must be issued in NGN form and the ECB must be satisfied that Eurosystem eligibility criteria have been met.] [include this text if “yes” selected] |

Notes:

1. The Guarantee Amount in respect of a relevant Tranche of Notes (other than Variable Notes (as defined below)) will be calculated as follows:

For Fixed Rate Notes:
 $GA = RA + (3 \times I) + AA$

For Floating Rate Notes:
 $GA = RA + (3 \times EI) + AA$

For Zero Coupon Notes:
 $GA = RA + AA$

“GA” means Guarantee Amount;

“RA” means the greater of the Early Redemption Amount and the Final Redemption Amount of the Notes, each as defined in the applicable Final Terms;

“I” means the amount of interest payable on the Notes up to the first anniversary of their issue date;

“EI” means the estimated amount of interest payable on the Notes up to the first anniversary of their issue date calculated on the basis that interest is payable for each interest period ending on or prior to such first anniversary at 1.5 times the rate fixed for the first interest period; and

“AA” means USD100,000 (or its equivalent in the currency of the Guarantee Amount) representing an additional amount to guarantee the payments of the Issuer to be due under the Trust Deed but not under the Securities.

For Notes with a variable or partial redemption amount or for Notes (other than Floating Rate Notes) where the amount of interest is not determinable at the Issue Date (**“Variable Notes”**) the Guarantee Amount will be agreed between ZIC and the relevant Dealer on or before the Issue Date.

In the event of a discrepancy between the above footnote and the footnote contained in the [Senior ZIC Guarantee] [Subordinated ZIC Guarantee], the footnote contained in the [Senior ZIC Guarantee] [Subordinated ZIC Guarantee] will prevail.

Form of Final Terms of the Capital Notes

Final Terms dated

Zurich Insurance Company Ltd
Issue of [Aggregate Nominal Amount of Tranche] Capital Notes
under the USD15,000,000,000
Euro Medium Term Note Programme
Part A Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions of Capital Notes set forth in the Base Prospectus dated [] and the supplement to the Base Prospectus dated [] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (*Directive 2003/71/EC*) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Capital Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. [The Base Prospectus [and the supplement to the Base Prospectus] [is] [are] available for viewing at [website] [and] during normal business hours at [address] [and copies may be obtained from [address]].]

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions of Capital Notes (the Conditions) set forth in the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated []]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (*Directive 2003/71/EC*) (the “**Prospectus Directive**”) and must be read in conjunction with the Base Prospectus dated [current date] [and the supplement to the Base Prospectus dated []], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated [] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [original date] and [current date] [and the supplements to the Base Prospectus dated [] and []]. [The Base Prospectuses [and the supplements to the Base Prospectus] are available for viewing at [website] [and] during normal business hours at [address] [and copies may be obtained from [address]].]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

- | | |
|------------------------------------------------------------------------------------------------------------------------|------------------------------|
| 1. Issuer: | Zurich Insurance Company Ltd |
| 2. [(i)] Series Number: | [] |
| [(ii)] Tranche Number: | [] |
| (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).] | [] |
| 3. Specified Currency or Currencies: | [] |
| 4. Aggregate Nominal Amount of Notes admitted to trading: | [] |
| [(i)] Series: | [] |
| [(ii)] Tranche: | [] |

5. Issue Price:	[] per cent of the Aggregate Nominal Amount [plus accrued interest from [insert date] <i>(if applicable)</i>]
6. Specified Denominations:**	[] [EUR 50,000 (or equivalent) and integral multiples of EUR 1,000 (or equivalent) in excess thereof up to and including EUR 99,000 (or equivalent). No Notes in definitive form will be issued with a denomination above EUR 99,000]*
Calculation Amount	[] [Notes issued under the Programme which may be listed on the Luxembourg Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system situated or operating in a member state of the European Union may not have a minimum denomination of less than EUR 50,000 (or its equivalent in another currency)], or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by ZF (USA), ZIC, ZF (UK), ZF (Luxembourg) or Zurich Bank or by any entity to whose group ZF (USA), ZIC, ZF (UK), ZF (Luxembourg) or Zurich Bank belongs.]]
7. [(i)] Issue Date:	[]
[(ii)] Interest Commencement Date:	[] [Not Applicable]
8. Type of Note	[Type A] [Type B] [Dated] [Undated] <i>[Insert details of any modifications to Condition 2 including in respect of the ability to exercise or claim any right of set-off]</i>
9. Maturity Date (for dated Notes only):	<i>[specify date or (for Floating Rate Notes) Interest Payment Date falling in the relevant month and year/Not Applicable]</i>
10. (i) Interest Basis:	[] per cent Fixed Rate] [[specify reference rate] +/- (] per cent Floating Rate] [Index Linked Interest] [Other (specify)] (further particulars specified below)

* This wording must be included in the case of an issue of Notes where the Specified Denominations are minimum denominations of EUR 50,000 (or equivalent) and integral multiples of EUR 1,000 (or equivalent).

** If the Maturity date of the Notes (including Notes denominated in sterling) is less than one year from the Issue Date and either (a) the issue proceeds are received by the relevant Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the relevant Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) or (ii) another applicable exemption from section 19 of the FSMA must be available.

(ii) Solvency Event:	[Applicable] [Not Applicable] [Cumulative] [Non-Cumulative]
(iii) Trigger Event:	[Applicable] [Not Applicable] [Cumulative] [Non-Cumulative]
(iv) Optional Non-Payment:	[Applicable] [Not Applicable]

	[Cumulative] [Non-Cumulative]
(v) Optional Non-Payment limited to 5 years upon loss of regulatory capital credit:	[Yes] [No]
(vi) Relevant Entity:	[ZIC/ZFS]
(vii) Cash Settlement:	[Applicable] [Not Applicable]
(viii) APM Settlement:	[Applicable] [Not Applicable]
	<i>([If Applicable, specify time period from the beginning of deferral upon which Deferred Interest is cancelled to the extent not settled via APM])</i>
(ix) Commercially Reasonable Efforts:	[Applicable] [Not Applicable] <i>([If Applicable, specify time period during which Issuer and ZFS shall continue to use their commercially reasonable efforts to operate the APM])</i>
(x) Intention Statement:	[Applicable] [Not Applicable]
	<i>([If Applicable, specify time period for which Issuer and ZFS intend to continue to voluntarily operate the APM in relation to Optionally Deferred Interest or Solvency Deferred Interest or Mandatorily Deferred Interest or, if for any reason this has not occurred within the original period of 30 days from the Interest Payment Date in relation to which a Mandatory Deferral Event is occurring.])</i>
(xi) APM:	[Ordinary Share Settlement] [Eligible Security Settlement] [Warrant Settlement] [PIK]
(xii) Period for purposes of limb (vi) of definition of APM Deferred Settlement Date:	[Not Applicable]/[]
(xiii) Cash Deferred Settlement Date applicable limbs:	[Limbs (iv) and/or (vi) [apply][do not apply]]
(xiv) Right to unpaid Deferred Interest where Liquidation Amount Threshold exceeded:	[Yes][No]
(xv) Condition 3(e)(vi) to apply:	[Yes] [No]
11. Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Instalment] [Other (specify)]
12. Change of Interest or Redemption/Payment Basis:	<i>[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]</i>
13. Call Option:	[Issuer Call] [(further particulars specified below)]
14. (i) Status of the Notes:	[Type A Capital Notes] [Type B Capital Notes] Subordinated Capital Notes
(ii) Date [Board] approval for issuance of Notes obtained:	[]
15. Method of distribution:	[Syndicated/Non-syndicated]
16. Condition 7(b)(vi) to apply:	[Yes][No]
17. Initial Permitted Non-Qualifying Lender[s]:	[]

Provisions Relating to Interest (if any) Payable

18. Fixed Rate Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
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- (i) Rate(s) of Interest: [] per cent per annum [payable [annually/semi annually/quarterly/monthly/other (specify)] in arrear]
- (ii) Interest Payment Date(s): [] in each year
- (iii) Fixed Coupon Amount(s): [] per Calculation Amount
- (iv) Broken Amount(s): [] per Calculation Amount payable on the interest Payment Date falling [in/on] []
- (v) Day Count Fraction: [30/360/Actual/Actual (ICMA/other)]
- (vi) Determination Dates: [] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
19. Floating Rate Note Provisions [Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate*)
- (i) Specified Period(s): []
- (ii) Interest Payment Dates: []
- (iii) First Interest Payment Dates: []
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
- (v) Additional Business Centre(s): []
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]): []
- (viii) Screen Rate Determination:
- Reference Rate: []
 - Interest Determination Date(s): []
 - Relevant Screen Page: []
- (ix) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (x) Margin(s): [+/-][] per cent per annum
- (xi) Minimum Rate of Interest: [] per cent per annum
- (xii) Maximum Rate of Interest: [] per cent per annum
- (xiii) Day Count Fraction: [Actual/Actual/Actual/Actual/ISDA/Actual 365 (Fixed)/Actual/360/30/360/360/360/Bond Basis/30E/360/Eurobond Basis/30E/360 (ISDA)/other]
- (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
20. Index-Linked Interest Note/other variable-linked interest Note Provisions [Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Index/Formula/other variable: [*give or annex details*]

- (ii) Party responsible for calculating Rates of Interest and Interest Amount(s) (if not the [Agent]): []
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: []
- (iv) Determination Date(s): []
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: []
- (vi) Interest or calculation period(s): []
- (vii) Specified Interest Payment Dates: []
- (viii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
- (ix) Additional Business Centre(s): []
- (x) Minimum Rate/Amount of Interest: [] per cent per annum
- (xi) Maximum Rate/Amount of Interest: [] per cent per annum
- (xii) Day Count Fraction: []
21. Dual Currency Note Provisions [Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [Insert name and address of Calculation Agent]
- Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: Person at whose option Specified Currency(ies) is/are payable: []

Provisions Relating to Redemption

22. Call Option Applicable
- (i) Optional Redemption Date(s): [] [NB: This should take account of any regulatory requirements as to minimum periods for call options].
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [] per Calculation Amount
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [] per Calculation Amount
- (b) Maximum Redemption Amount: [] per Calculation Amount
- (iv) Notice period: []
23. (i) Accounting Event [Yes/No]
- (ii) Initial Accounting Treatment Methodology: [liabilities/equity]
24. Other Event Redemption Price: []
25. Capital Event: [Yes/No]

26. Regulatory Event: [Yes/No]
27. (i) Replacement Capital Covenant: [Yes/No]
- (ii) Intent-Based Replacement Language: [Yes/No]
28. Final Redemption Amount of each Note [[] per Calculation Amount]

In cases where the Final Redemption Amount is Index-Linked or other variable-linked:

- (i) Index/Formula/variable: [*give or annex details*]
- (ii) Calculation Agent responsible for calculating the Final Redemption Amount: []
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: []
- (iv) Determination Date(s): []
- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: []
- (vi) Payment Date: []
- (vii) Minimum Final Redemption Amount: [] per Calculation Amount
- (viii) Maximum Final Redemption Amount: [] per Calculation Amount
29. Early Redemption Amount: []
- Special Redemption Price: []
- Regular Redemption Price: []
- [30. Instalment Amount:] []
31. Maturity Date of Dated Capital Notes [Yes] [No]
- extended upon a Solvency Event in accordance with Condition 6(c):

General Provisions Applicable to the Notes

32. Form of Notes: Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on 40 days' notice/in the limited circumstances specified in the Permanent Global Note]
[Temporary Global Note exchangeable for Definitive Notes]
[Permanent Global Note exchangeable for Definitive Notes on 40 days' notice/in the limited circumstances specified in the Permanent Global Note]
Registered Notes: [Reg S Global Note and/or Individual Registered Notes (Specify whether/in what circumstances interests in the relevant Reg S Global Note will be exchangeable for Individual Registered Notes and vice versa).]
[Listed Swiss Franc Notes: Permanent Global SIS Note]
33. Payment Business Centre(s) or other special provisions relating to Payment Days for the purpose of Condition 5(c): [Not applicable/*give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 18(ii), 19(iv) and 20(ix) relate*]

34. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
35. Principal Paying Agent: []
36. Relevant Jurisdictions: [Specify if different from those set out in Condition 6(b)]
37. Restricted Capital Note (Condition 10(j) shall apply): [Yes][No]
- (i) Restricted Capital Note Minimum Denomination Amount: []
- (ii) Restricted Capital Note Transfer Amount: []
- (iii) Number of Qualifying Banks: []
38. Other final terms: [Not Applicable/*give details*] (*When adding any other final terms consideration should be given as to whether such terms constitute a “significant new factor” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)

Responsibility

The Issuer accepts responsibility for the information contained in these Final Terms. [(Relevant third party information) has been extracted from (specify source). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (specify source), no facts have been omitted which would tender the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

By:.....
Duly authorised

PART B — OTHER INFORMATION

1. Listing and Admission to Trading

- (i) Listing: [Luxembourg/other (specify)/None].
- (ii) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [] with effect from [].] Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [] with effect from [].] [Not Applicable.]
(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)
- (iii) Estimate of total expenses related to admission to trading: [].

2. Ratings

- Ratings: The Notes to be issued have been rated:
[S & P: []]
[Moody's: []]
[[Other]: []]
(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. [Interests of Natural and Legal Persons Involved in the [Issue/Offer]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in [“Subscription and Sale”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

4. [Reasons for the Offer, Estimated Net Proceeds and Total Expenses

- [(i) Reasons for the offer []
(See [“Use of Proceeds”] wording in Base Prospectus — if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]
- [[ii)] Estimated net proceeds: []
(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)]
- [[iii)] Estimated total expenses: []
[Include breakdown of expenses.]
(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]

5. [Yield (Fixed Rate Notes only)

- Indication of yield: [].
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. [Performance of Index/Formula/other variable and other information concerning the underlying
(Index-Linked or other variable-linked Notes only)

This needs to include a statement setting out the type of the underlying and details of where information on the underlying can be obtained, and an indication where information about the past and further performance of the underlying and its volatility can be obtained.

- *Where the underlying is a security, the name of the issuer of the security and the ISIN (International Security Identification Number) or other such security identification code need to be provided.*
- *Where the underlying is an index, the name of the index and a description of the index if it is composed by the Issuer need to be provided. If the index is not composed by the Issuer need to include details of where the information about the index can be obtained.*
- *Where the underlying is and interest rate, a description of the interest rate need to be provided.*
- *Where the underlying does not fall within the categories specified above the securities note shall contain equivalent information.*
- *Where the underlying is a basket of underlyings, disclosure of the relevant weightings of each underlying in the basket need to be provided.*

Need to include a description of any market disruption or settlement disruption events that affect the underlying and adjustment rules in relation to events concerning the underlying (if applicable).]

7. [Performance of Rate[s] of Exchange *(Dual Currency Notes only)*

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]

8. Operational Information

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|
| (i) ISIN Code: | [] |
| (ii) Common Code: | [] |
| (iii) Any clearing system(s) other than Euroclear Bank
S.A./N.V. and Clearstream Banking société anonyme and
the relevant identification number(s): | [Not Applicable/give name(s) and number(s)] |
| (iv) Delivery: | Delivery [against/free of] payment |
| (v) Names and addresses of initial Paying Agent(s): | [] |
| (vi) Names and addresses of additional Paying Agent(s) (if
any): | [] |

General Information

1. The establishment of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of ZF (USA) dated 27 May 1998, 27 May 1999, 13 June 2000, 11 June 2001, 25 June 2002, 20 June 2003, 17 June 2004, 18 May 2006, 24 May 2007 and 10 June 2008, 15 June 2009 and 24 May 2010 and of ZIC dated 4 March 1998, 17 June 2000, 19 June 2002, 19 April 2006 and 14 May 2008. ZF (Luxembourg) has been authorised to be an Issuer on the Programme and become party to documents in connection therewith by resolutions of the Board of Directors of ZF (Luxembourg) dated 21 May 1999, 30 May 2000, 13 June 2001, 25 June 2002, 25 June 2003, 17 June 2004, 22 May 2006 23 May 2007, 2 June 2008, 25 May 2009 and 19 May 2010. ZF (UK) has been authorised to be an Issuer on the Programme and become party to documents in connection therewith by resolutions of the Board of Directors of ZF (UK) dated 25 June 2002, 25 June 2003, 17 June 2004, 18 May 2006, 11 May 2007, 27 May 2008, 4 June 2009 and 17 May 2010. Zurich Bank has been authorised to be an Issuer on the Programme and become party to documents in connection therewith by resolutions of the Board of Directors of Zurich Bank dated 17 May 2006, 14 May 2007, 10 June 2008, 12 June 2009 and 28 May 2010. The giving of each Senior ZIC Guarantee and each Subordinated ZIC Guarantee has been duly authorised by resolutions of the Board of Directors of ZIC dated 4 March 1998, 19 June 2002 and 19 April 2006 14 May 2008.
2. Application has been made for Notes issued under the Programme to be admitted to trading on the regulated market, and listed on the Official List, of the Luxembourg Stock Exchange.
3. So long as Notes are capable of being issued under the Programme, copies of the documents are, or will, when published, be available free of charge from the registered office of each Issuer and from the specified offices of the Paying Agent for the time being in Luxembourg and the documents set out in paragraph (iv) and (v) below will also be available for viewing on the Luxembourg Stock Exchange website at www.bourse.lu
 - (i) the constitutional documents (with, if applicable, an English translation thereof) of each Issuer;
 - (ii) the most recent audited annual financial statements of ZF (Luxembourg), ZF (USA), ZF (UK), Zurich Bank and ZIC (in each case with, if applicable, an English translation thereof). Neither ZF (Luxembourg), ZF (USA), ZF (UK), Zurich Bank nor ZIC are required to publish interim accounts;
 - (iii) the Dealer Agreement, the Trust Deed, the Agency Agreement, the forms of the bearer and registered Global Notes and the Notes in bearer definitive and individual registered form, the Receipts, the Coupons, the Talons, each Senior ZIC Guarantee, each Subordinated ZIC Guarantee and each agency agreement entered into in relation to an issue of Listed Swiss Franc Notes (which will contain the form of permanent global certificate in respect of such Notes);
 - (iv) a copy of this Base Prospectus;
 - (v) any future base prospectuses, information memoranda and supplements to this Base Prospectus and any other documents incorporated herein or therein by reference, and Final Terms (save that Final Terms relating to a Note which is not admitted to listing, trading and/or quotation by any stock exchange, listing authority and/or quotation system will only be available for inspection at the registered office of the relevant Issuer by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer as to its holding and identity); and
 - (vi) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).
4. The Bearer Notes have been accepted for clearance through Euroclear (Boulevard du Roi Albert II B-1210 Brussels, Belgium), Clearstream (42 Avenue J F Kennedy 1855 Luxembourg), Luxembourg and SIS. The appropriate Common Code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and Clearstream, Luxembourg or SIS will be specified in the relevant Final Terms. The CUSIP numbers for each Tranche of Registered Notes, together with the relevant ISIN and common code, if applicable, will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.

5. The auditors of ZIC, for the years commencing 1 January 2009 and 2008, are PricewaterhouseCoopers AG, Birchstrasse 160, 8050 Zurich, Switzerland who are members of the Swiss Institute of Certified Accountants and Tax Consultants. The auditors of ZF (Luxembourg), for the years commencing 1 January 2009 and 2008, are PricewaterhouseCoopers S.à r.l., 400, route d'Esch, B. P. 1443, 1014 Luxembourg, Luxembourg who are members of the Institut des Réviseurs d'Entreprises. The auditors of ZF (UK), for the years commencing 1 January 2009 and 2008, are PricewaterhouseCoopers LLP, Hays Galleria, 32 London Bridge Street, London SE1 9SY, United Kingdom who are members of the Institute of Chartered Accountants of England and Wales. The auditors of ZF (USA), for the years commencing 1 January 2009 and 2008, are PricewaterhouseCoopers, One Spencer Dock, North Wall Quay, Dublin 1, Ireland, who are members of the Institute of Chartered Accountants of Ireland. The auditors of Zurich Bank, for the years commencing 1 January 2009 and 2008, are PricewaterhouseCoopers LLP, Georges Quay, Dublin 2, Ireland who are members of the Institute of Chartered Accountants in Ireland. The financial statements of the Issuers and the Guarantor (pages 5, 6 and 7 of this Base Prospectus) have been audited by their respective auditors.
6. Save as disclosed in this Base Prospectus, since 31 December 2009 there has been no material adverse change in the prospects of ZIC, ZF (Luxembourg), ZF (USA), ZF (UK), Zurich Bank or in ZIG.
7. Save as disclosed in this Base Prospectus, since 31 December 2009 there has been no significant change in the financial or trading position of ZIC, ZF (Luxembourg), ZF (USA), ZF (UK), Zurich Bank or ZIG.
8. Save as disclosed in this Base Prospectus or in the relevant Final Terms, there are no governmental, legal or arbitration proceedings (or any such proceedings which are pending or threatened of which any of the Issuers is aware) during the 12 months before the date of publication of this Base Prospectus which may have or have had in the recent past, significant effects on the financial position or profitability of any of the Issuers or on ZIG.
9. The Issuer does not intend to provide any post-issuance information in relation to any assets underlying issues of Notes constituting derivative securities except if required by any applicable laws and regulations.

THE ISSUERS

**Zurich Finance
(Luxembourg) S.A.**
45, rue des Scillas
L-2529 Howald
Luxembourg

Zurich Finance (USA), Inc.
c/o Zurich Holding
Company of America, Inc.
1400 American Lane
Schaumburg
Illinois 60196
USA

Zurich Finance (UK) plc
UK Life Centre
Station Road
Swindon SN1 1EL
United Kingdom

Zurich Insurance Company Ltd
Mythenquai 2
CH-8002 Zurich
Switzerland

Zurich Bank
5th Floor, La Touche House
International Financial Services Centre
Dublin 1
Ireland

THE GUARANTOR
(in respect of Notes issued by
ZF (Luxembourg), ZF (USA), and ZF (UK) and Zurich Bank)

Zurich Insurance Company Ltd
Mythenquai 2
CH-8002 Zurich
Switzerland

THE AGENT AND REGISTRAR

Citibank, N.A.
21st Floor, Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

THE TRUSTEE

Citicorp Trustee Company Limited
14th Floor
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

THE PAYING AGENT AND TRANSFER AGENT

Dexia Banque Internationale à Luxembourg société anonyme
69, route d'Esch
L-2953 Luxembourg

LEGAL ADVISERS

To Zurich Insurance Company Ltd and
Zurich Finance (UK) plc
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS
United Kingdom

To Zurich Finance (Luxembourg) S.A.
Arendt & Medernach
14, rue Erasme
L-2082 Luxembourg
Luxembourg

To Zurich Finance (USA), Inc.
Willkie Farr & Gallagher LLP
787 Seventh Avenue
New York, New York 10019
USA

To Zurich Bank
McCann FitzGerald
Riverside One
Sir John Rogerson's Quay
Dublin 2
Ireland

To the Dealers and the Trustee in England
Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

STATUTORY AUDITORS TO ZF (LUXEMBOURG)
PricewaterhouseCoopers S.à r.l.
400, route d'Esch
B.P. 1443,
L-1014 Luxembourg

AUDITORS TO ZF (UK)
PricewaterhouseCoopers LLP
Hays Galleria
32 London Bridge Street
London SE1 9SY
United Kingdom

AUDITORS TO ZF (USA)
PricewaterhouseCoopers
1 Spencer Dock
North Wall Quay
Dublin 1
Ireland

AUDITORS TO ZIC
PricewaterhouseCoopers AG
Birchstrasse 160
Postfach
CH-8050 Zurich
Switzerland

AUDITORS TO ZURICH BANK

PricewaterhouseCoopers
1 Spencer Dock
North Wall Quay
Dublin 1
Ireland

THE DEALERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

Crédit Agricole CIB
9, quai du Président Paul Doumer
92920 Paris La Défense Cedex
France

Commerzbank Aktiengesellschaft
Kaiserstraße 16 (Kaiserplatz)
60311 Frankfurt am Main
Federal Republic of Germany

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR
United Kingdom

BNP PARIBAS
10 Harewood Avenue
London NW1 6AA
United Kingdom

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ
United Kingdom

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ
United Kingdom

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Zurich Bank
5th Floor
La Touche House
International Financial Services Centre
Dublin 1
Ireland

UBS Limited
1 Finsbury Avenue
London EC2M 2PP
United Kingdom

LUXEMBOURG LISTING AGENT

Dexia Banque Internationale à Luxembourg société anonyme
69, route d'Esch
L-2953 Luxembourg

Consolidated Financial Statements

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Consolidated income statements

In USD millions, for the years ended December 31	Notes	2009	2008
Revenues			
Gross written premiums and policy fees		53,817	51,894
Less premiums ceded to reinsurers		(5,844)	(6,226)
Net written premiums and policy fees		47,973	45,667
Net change in reserves for unearned premiums	11	(746)	(1,560)
Net earned premiums and policy fees		47,227	44,107
Farmers management fees and other related revenues	14	2,690	2,458
Net investment result on Group investments	6	5,945	5,822
Net investment income on Group investments		7,443	8,595
Net capital gains/(losses) and impairments on Group investments		(1,498)	(2,773)
Net investment result on unit-linked investments	6	12,475	(21,731)
Net gain/(loss) on divestments of businesses	5	(5)	16
Other income		1,822	1,710
Total revenues		70,156	32,383
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance ¹	11	39,522	31,387
Less ceded insurance benefits and losses ¹	11	(3,261)	3,425
Insurance benefits and losses, net of reinsurance	11	36,261	34,811
Policyholder dividends and participation in profits, net of reinsurance	11	12,859	(21,514)
Underwriting and policy acquisition costs, net of reinsurance	11	8,254	8,287
Administrative and other operating expense	13	7,162	6,764
Interest expense on debt	22	767	777
Interest credited to policyholders and other interest		525	746
Total benefits, losses and expenses		65,828	29,872
Net income before income taxes		4,328	2,511
Income tax expense	21	(1,274)	538
attributable to policyholders	21	(387)	1,184
attributable to shareholders	21	(887)	(646)
Net income after taxes		3,054	3,050
attributable to non-controlling interests		68	123
attributable to shareholders		2,985	2,927

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

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

Consolidated statements of comprehensive income

in USD millions, for the years ended December 31

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	
Notes			
2008			
Comprehensive income for the year	2,927	(3,148)	
Detail of movements during the year			
Change (before reclassification, tax and currency translation effects and after allocation to policyholders)		(6,297)	
Reclassification to income statement (before tax and currency translation effects and after allocation to policyholders)		2,089	
Deferred income tax (before currency translation effects)		939	
Foreign currency translation effects		120	
2009			
Comprehensive income for the year	2,985	3,251	
Detail of movements during the year			
Change (before reclassification, tax and currency translation effects and after allocation to policyholders)		3,436	
Reclassification to income statement (before tax and currency translation effects and after allocation to policyholders)		932	
Deferred income tax (before currency translation effects)		(1,103)	
Foreign currency translation effects		(13)	

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

	Cash flow hedges	Cumulative translation adjustment	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	87	(2,958)	16	(1,108)	(7,112)	(4,185)	20	(4,165)
	60	(2,940)	21	(1,679)	(10,836)			
	54	(18)	–	–	2,125			
	(20)	–	(5)	457	1,372			
	(7)	–	–	114	227			
	7	1,192	(1)	173	4,622	7,607	145	7,752
	119	1,192	(2)	290	5,035			
	(96)	–	–	–	836			
	(16)	–	–	(64)	(1,183)			
	–	–	–	(53)	(67)			

Consolidated balance sheets

Assets	in USD millions, as of December 31	Notes	2009	2008	Restated 2007
Investments					
Total Group investments			195,943	180,335	192,722
Cash and cash equivalents			13,540	14,016	15,366
Equity securities			12,519	13,785	19,704
Debt securities			136,059	118,287	125,148
Real estate held for investment			7,789	7,524	7,563
Mortgage loans			10,472	10,715	10,623
Other loans			15,335	15,069	13,359
Equity method accounted investments			229	217	238
Holding in related companies			–	721	721
Investments for unit-linked contracts			99,167	78,203	122,092
Total investments	6		295,110	258,538	314,814
Reinsurers' share of reserves for insurance contracts ¹	8		18,627	18,595	26,970
Deposits made under assumed reinsurance contracts			3,861	2,397	1,359
Deferred policy acquisition costs	12		16,181	14,323	14,941
Deferred origination costs	12		856	770	1,003
Accrued investment income			2,753	2,441	2,590
Receivables	15		13,131	13,263	12,957
Other assets	19		3,276	4,075	3,373
Mortgage loans given as collateral	16		1,102	1,233	2,243
Deferred tax assets	21		2,253	2,915	1,695
Assets held for sale ²			67	–	–
Property and equipment	17		1,939	1,885	1,968
Goodwill	18		2,297	1,677	1,553
Other intangible assets	18		7,035	6,620	3,071
Total assets			368,489	328,731	388,536

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

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

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

Liabilities and equity

in USD millions, as of December 31

	Notes	2009	2008	Restated 2007
Liabilities				
Reserve for premium refunds		649	620	625
Liabilities for investment contracts	9	46,124	35,979	54,485
Deposits received under ceded reinsurance contracts		1,558	1,619	1,739
Deferred front-end fees		5,543	4,695	5,791
Reserves for insurance contracts ¹	8	241,412	222,179	252,740
Obligations to repurchase securities		3,976	3,608	5,370
Accrued liabilities		2,795	2,867	2,806
Other liabilities	20	15,481	15,992	18,552
Collateralized loans	16	1,102	1,233	2,243
Deferred tax liabilities	21	4,464	3,470	4,049
Debt related to capital markets	22	25	2,079	848
Senior and subordinated debt	22	15,971	14,097	13,322
Total liabilities		339,101	308,439	362,568
Equity				
Share capital	23	660	660	660
Additional paid-in capital	23	16,024	14,620	14,620
Net unrealized gains/(losses) on available-for-sale investments		304	(2,947)	201
Cash flow hedges		(9)	(16)	(103)
Cumulative translation adjustment		(3,099)	(4,291)	(1,333)
Revaluation reserve		98	99	83
Retained earnings		13,365	9,975	11,056
Shareholders' equity		27,343	18,100	25,185
Non-controlling interests		2,045	2,192	783
Total equity		29,388	20,292	25,968
Total liabilities and equity		368,489	328,731	388,536

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

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

Consolidated statements of cash flows

in USD millions, for the years ended December 31	2009	2008
Cash flows from operating activities		
Net income attributable to shareholders	2,985	2,927
Adjustments for:		
Net (gain)/loss on divestments of businesses	5	(16)
Income from equity method accounted investments	(4)	(8)
Depreciation, amortization and impairments of fixed and intangible assets	882	650
Other non-cash items	800	1,342
Underwriting activities:	13,102	(24,593)
<i>Reserves for insurance contracts, gross¹</i>	8,882	(19,773)
<i>Reinsurers' share of reserves for insurance contracts¹</i>	566	7,056
<i>Liabilities for investment contracts</i>	6,674	(9,486)
<i>Deferred policy acquisition costs</i>	(1,455)	(980)
<i>Deferred origination costs</i>	(16)	8
<i>Deposits made under assumed reinsurance contracts</i>	(1,453)	(1,308)
<i>Deposits received under ceded reinsurance contracts</i>	(97)	(110)
Investments:	(19,438)	30,501
<i>Net capital (gains)/losses on total investments and impairments</i>	(9,339)	27,689
<i>Net change in trading securities</i>	(198)	2,036
<i>Sales and maturities</i>		
<i>Debt securities</i>	208,719	80,060
<i>Equity securities</i>	49,511	66,830
<i>Other</i>	10,495	6,012
<i>Purchases</i>		
<i>Debt securities</i>	(217,671)	(82,002)
<i>Equity securities</i>	(50,324)	(63,314)
<i>Other</i>	(10,629)	(6,810)
Proceeds from sale and repurchase agreements	(14)	(443)
Movements in receivables and payables	147	(3,230)
Net changes in debt for capital markets	(2,054)	1,229
Net changes in other operational assets and liabilities	1,038	610
Deferred income tax, net	492	(1,739)
Net cash (used in)/provided by operating activities	(2,058)	7,231

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

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

in USD millions, for the years ended December 31	2009	2008
Cash flows from investing activities		
Sales of property and equipment	86	315
Purchase of property and equipment	(360)	(440)
Investments in equity method accounted investments, net	6	15
Acquisitions of companies, net of cash acquired	(307)	(1,319)
Divestments of companies, net of cash balances	(10)	(5)
Dividends from equity method accounted investments	5	5
Net cash used in investing activities	(581)	(1,429)
Cash flows from financing activities		
Dividends paid	(134)	(2,948)
Capital injection	1,095	–
Issuance of debt	3,475	3,348
Repayments of debt outstanding	(2,134)	(2,454)
Net cash provided by/(used in) financing activities	2,302	(2,053)
Foreign currency translation effects on cash and cash equivalents	926	(1,955)
Change in cash and cash equivalents excluding change in cash held as collateral for securities lending¹	588	1,794
Cash and cash equivalents as of January 1, excluding cash held as collateral for securities lending	18,299	16,506
Cash and cash equivalents as of December 31, excluding cash held as collateral for securities lending	18,888	18,299
Change in cash held as collateral for securities lending	316	(1,700)
Cash and cash equivalents as of January 1, including cash held as collateral for securities lending	18,476	18,383
Cash and cash equivalents as of December 31, including cash held as collateral for securities lending	19,380	18,476
of which:		
– cash and cash equivalents – Group Investments	13,540	14,016
– cash and cash equivalents – unit linked	5,840	4,460
Other supplementary cash flow disclosures		
Other interest income received	7,047	8,664
Dividend income received	1,683	2,996
Other interest expense paid	(1,402)	(1,652)
Income tax paid	(958)	(1,170)

As of December 31, 2009 and 2008, cash and cash equivalents restricted as to use were USD 1,715 million and USD 1,131 million, respectively.

Cash and cash equivalents

in USD millions, as of December 31	2009	2008
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	7,044	7,770
Cash equivalents	11,844	10,529
Cash held as collateral for securities lending	493	177
Total	19,380	18,476

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

Consolidated statements of changes in equity

in USD millions

	Share capital	Additional paid-in capital	
Balance as of December 31, 2007	660	14,620	
Dividends to shareholders	–	–	
Share-based payment transactions	–	–	
Total comprehensive income for the year, net of tax	–	–	
<i>Net income</i>	–	–	
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	
<i>Cash flow hedges</i>	–	–	
<i>Cumulative 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, 2008	660	14,620	
Balance as of December 31, 2008	660	14,620	
Capital injection	–	1,095	
Dividends to shareholders	–	–	
Share-based payment transactions	–	308	
Transaction under common control	–	–	
Total comprehensive income for the year, net of tax	–	–	
<i>Net income</i>	–	–	
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	
<i>Cash flow hedges</i>	–	–	
<i>Cumulative 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, 2009	660	16,024	

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

	Net unrealized gains/(losses) on available-for-sale investments	Cash flow hedges	Cumulative translation adjustment	Revaluation reserve	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	201	(103)	(1,333)	83	11,056	25,185	783	25,968
	–	–	–	–	(2,885)	(2,885)	(63)	(2,948)
	–	–	–	–	(16)	(16)	–	(16)
	(3,148)	87	(2,958)	16	1,819	(4,185)	32	(4,153)
	–	–	–	–	2,927	2,927	–	
	(3,148)	–	–	–	–	(3,148)		
	–	87	–	–	–	87		
	–	–	(2,958)	–	–	(2,958)		
	–	–	–	16	–	16		
	–	–	–	–	(1,108)	(1,108)		
	–	–	–	–	–	–	1,440	1,440
	(2,947)	(16)	(4,291)	99	9,975	18,100	2,192	20,292
	(2,947)	(16)	(4,291)	99	9,975	18,100	2,192	20,292
	–	–	–	–	–	1,095	–	1,095
	–	–	–	–	(113)	(113)	(21)	(134)
	–	–	–	–	133	441	–	441
	–	–	–	–	211	211	–	211
	3,251	7	1,192	(1)	3,158	7,607	145	7,752
	–	–	–	–	2,985	2,985	–	
	3,251	–	–	–	–	3,251		
	–	7	–	–	–	7		
	–	–	1,192	–	–	1,192		
	–	–	–	(1)	–	(1)		
	–	–	–	–	173	173		
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	(271)	(271)
	304	(9)	(3,099)	98	13,365	27,343	2,045	29,388

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

The holding company Zurich Insurance Company Ltd, is incorporated in Zurich, Switzerland. The address of the registered office is Mythenquai 2, 8002 Zurich, Switzerland. Due to a change in the Swiss Code of Obligations Zurich Insurance Company was renamed to Zurich Insurance Company Ltd effective April 2, 2009. Throughout this document the new name Zurich Insurance Company Ltd is used consistently even if reference is made to facts that occurred prior to the renaming of the company.

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

1. Basis of presentation

General information

The Consolidated Financial Statements of the Zurich Insurance Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. Where IFRS does not contain clear guidance governing the accounting treatment of certain transactions including those that are specific to insurance products, IFRS permits reference to another comprehensive body of accounting principles that uses a similar conceptual framework. In these cases, the Zurich Insurance Group typically refers to accounting principles generally accepted in the United States of America (US GAAP) for guidance. In certain cases the Zurich Insurance Group may decide to maintain the local statutory treatment if this does not distort a fair presentation of the financial position of the Zurich Insurance 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 Zurich Insurance Group. The Zurich Insurance 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 16 to 51, and they form an integral part of the Consolidated Financial Statements.

Significant Subsidiaries included in the scope of consolidation are disclosed on pages 168 to 170.

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

The 2008 economic sensitivities for the rest of the businesses published in 2008 Risk Review erroneously did not include other businesses with Life characteristics. The 2008 economic sensitivities presented in tables 6b and 9 in this Risk Review have been restated to include other businesses with Life characteristics as well as reflect the new structure of Zurich Insurance Group.

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

"Short-term investments", previously reported under "Other investments" amounting to USD 2,377 million (out of which Zurich Insurance Group Investments represented USD 2,173 million) as of December 31, 2008, are now presented, depending on their nature and measurement basis, under "Cash and cash equivalents", "Debt securities – Available-for-sale", "Debt securities Fair value through profit and loss", "Debt securities – Trading" or "Other loans". Similarly, Zurich Insurance Group investments previously presented under "Other" within "Other investments" amounting to USD 61 million as of December 31, 2008, are now presented under "Equity securities – Trading". These changes in presentation are reflected in the consolidated balance sheets, consolidated statements of cash flows and notes 6 and 30.

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

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

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

The treatment of the elimination of inter-segment transactions has been changed to eliminate gross up effects on certain intercompany clearing accounts. This change results in an increase/(decrease) on the inter-segment revenue line for the year ended December 31, 2008 as follows: USD 723 million in General Insurance, USD (132) million in Global Life, USD 21 million in Farmers, USD (632) million in Other Operating Businesses and USD 20 million in Non-Core Businesses. The change has no impact on either segmental Business Operating Profit (BOP) or net income of the Zurich Insurance Group.

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

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

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

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

Changes related to operating segments are shown in note 30.

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

The table below summarizes the principal exchange rates that have been used for translation purposes. Net losses on foreign currency transactions included in the consolidated income statements were USD (49) million and USD (71) million for the years ended December 31, 2009 and 2008, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 133 million and USD (855) million for the years ended December 31, 2009 and 2008, respectively.

Table 1

Principal
exchange rates

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

Significant transactions and events

In December 2009, Zurich Financial Services Ltd, the ultimate holding company of Zurich Insurance Company Ltd, merged with Zurich Group Holding. As a result, Zurich Financial Services Ltd is now the immediate as well as the ultimate holding company of Zurich Insurance Company Ltd.

Prior to this merger, Zurich Group Holding sold its 20 percent interest in Zurich Investment Management to Zurich Insurance Company Ltd at a value below market value. The difference to the cost value amounting to USD 31 million was recognized directly in equity, as the transaction qualified as a transaction under common control.

A further transaction under common control was executed as part of the efforts to streamline the legal structure, whereby certain holdings were sold to a related party outside the Zurich Insurance Group. This transaction resulted in an increase in equity of USD 180 million.

Transfer of the Central Share Vehicle (CSV) to Zurich Insurance Company Ltd

On September 30, 2009 the Central Share Vehicle (CSV) of the Zurich Insurance Group, has been transferred to Zurich Insurance Company Ltd. The CSV is the administrative unit managing the share-based plans of the Zurich Financial Services Group including the charging process to the subsidiaries. The CSV was previously held at the former immediate parent level, Zurich Group Holding, outside of the Zurich Insurance Group.

Prior to the transfer of the CSV to Zurich Insurance Company Ltd, grants of equity rights were recognized in equity as contributions from the parent in the period when the equity rights vested. Payments made to the CSV in relation to grants of equity rights during the period when the equity rights vested were offset against capital contributions. Payments made to the CSV in advance of the vesting period were accounted for as distributions to the parent and offset in future periods against capital contributions as equity rights vested. Because payments for share-based plans are made in advance at the grant date, a net capital distribution equal on a cumulative basis to the fair value at grant date of the equity rights not yet vested amounting to USD 133 million had been recorded up to December 31, 2008. This amount has been reversed as of the transfer date resulting in an equal and opposite movement in equity for the period.

After the transfer, the cumulative fair value of the vested equity rights outstanding in the amount of USD 208 million has been recognized in additional paid-in capital. In addition, an amount of USD 100 million has also been recognized in additional paid-in capital in the period September 30, 2009 to December 31, 2009 to reflect the equity rights vesting during this period.

Change in presentation in 2009

Reclassification on consolidated income statement	Table 1.1 in USD millions, for the year ended December 31, 2008			
		As reported	Reclassifications	As revised
	Revenues			
	Gross written premiums and policy fees	51,894		51,894
	Less premiums ceded to reinsurers	(6,226)		(6,226)
	Net written premiums and policy fees	45,667		45,667
	Net change in reserves for unearned premiums	(1,560)		(1,560)
	Net earned premiums and policy fees	44,107		44,107
	Farmers management fees and other related revenues	2,458		2,458
	Net investment result on Group investments	5,850	(28)	5,822
	Net investment income on Group investments	8,622	(28)	8,595
	Net capital gains/(losses) and impairments on Group investments	(2,773)		(2,773)
	Net investment result on unit-linked investments	(21,731)		(21,731)
	Net gain/(loss) on divestments of businesses	16		16
	Other income	1,682	28	1,710
	Total revenues	32,383		32,383
	Benefits, losses and expenses			
	Insurance benefits and losses, gross of reinsurance	31,387		31,387
	Less ceded insurance benefits and losses	3,425		3,425
	Insurance benefits and losses, net of reinsurance	34,811		34,811
	Policyholder dividends and participation in profits, net of reinsurance	(21,514)		(21,514)
	Underwriting and policy acquisition costs, net of reinsurance	8,287		8,287
	Administrative and other operating expense	6,764		6,764
	Interest expense on debt	777		777
	Interest credited to policyholders and other interest	746		746
	Total benefits, losses and expenses	29,872		29,872
	Net income before income taxes	2,511		2,511
	Income tax expense	538		538
	attributable to policyholders	1,184		1,184
	attributable to shareholders	(646)		(646)
	Net income after taxes	3,050		3,050
	attributable to non-controlling interests	123		123
	attributable to shareholders	2,927		2,927

Reclassification on consolidated balance sheet

Table 1.2

in USD millions, as of December 31, 2008

	As reported	Reclassifications	As revised
Investments			
Total Group investments	180,335	–	180,335
Cash and cash equivalents	13,554	462	14,016
Equity securities	13,724	61	13,785
Debt securities	118,103	184	118,287
Real estate held for investment	7,524	–	7,524
Mortgage loans	10,715	–	10,715
Other loans	13,543	1,526	15,069
Equity method accounted investments	217	–	217
Other investments	2,956	(2,235)	721
Investments for unit-linked contracts	78,203	–	78,203
Total investments	258,538	–	258,538
Reinsurers' share of reserves for insurance contracts	18,595	–	18,595
Deposits made under assumed reinsurance contracts	2,397	–	2,397
Deferred policy acquisition costs	14,323	–	14,323
Deferred origination costs	770	–	770
Accrued investment income	2,441	–	2,441
Receivables	13,263	–	13,263
Other assets	4,075	–	4,075
Mortgage loans given as collateral	1,233	–	1,233
Deferred tax assets	2,915	–	2,915
Property and equipment	1,885	–	1,885
Goodwill	1,846	(169)	1,677
Other intangible assets	6,451	169	6,620
Total assets	328,731	–	328,731
Liabilities			
Reserve for premium refunds	620	–	620
Liabilities for investment contracts	35,979	–	35,979
Deposits received under ceded reinsurance contracts	1,619	–	1,619
Deferred front-end fees	4,695	–	4,695
Reserves for insurance contracts	222,179	–	222,179
Obligations to repurchase securities	3,608	–	3,608
Accrued liabilities	2,867	–	2,867
Other liabilities	15,992	–	15,992
Collateralized loans	1,233	–	1,233
Deferred tax liabilities	3,470	–	3,470
Debt related to capital markets	2,079	–	2,079
Senior and subordinated debt	14,097	–	14,097
Total liabilities	308,439	–	308,439
Equity			
Share capital	660	–	660
Additional paid-in capital	14,620	–	14,620
Net unrealized gains/(losses) on available-for-sale investments	(2,947)	–	(2,947)
Cash flow hedges	(16)	–	(16)
Cumulative translation adjustment	(4,291)	–	(4,291)
Revaluation reserve	99	–	99
Retained earnings	9,975	–	9,975
Shareholders' equity	18,100	–	18,100
Non-controlling interests	2,192	–	2,192
Total equity	20,292	–	20,292
Total liabilities and equity	328,731	–	328,731

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

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

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

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

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

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

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

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

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

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

Standards, amendments and interpretations issued that are not yet effective

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

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

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

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

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

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

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

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

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

In November 2009, the IASB issued IFRS 9 "Financial Instruments" which reconsiders the classification and measurement of financial assets. These requirements are effective for reporting periods beginning on or after

January 1, 2013, with earlier adoption permitted. Under the new guidance the classification of financial assets is based on how the reporting entity manages these assets (business model) and on the contractual cash flow characteristics of the specific financial assets. The measurement of financial assets will be either amortized costs or fair value through profit or loss, whereby for equity instruments an irrevocable election can be made on an instrument-by-instrument basis to record fair value through Other Comprehensive Income (OCI). The Zurich Insurance Group plans to assess the impact of this standard on its financial statements in conjunction with the revised standard on IFRS 4 "Insurance Contracts" which is expected to be released in 2011 effective for reporting periods beginning on or after January 1, 2013. Changes to the IFRS timetable may have an impact on this approach.

3. Summary of significant accounting policies

The principal accounting policies applied in the presentation of 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 Zurich Insurance Group's Consolidated Financial Statements include the assets, liabilities, equity, revenues, expenses and cash flows of Zurich Insurance Company Ltd and its subsidiaries. A subsidiary is an entity in which Zurich Insurance Company 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 Zurich Insurance Group. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant carrying value of non-controlling interest acquired.

Investments in associates and partnerships where the Zurich Insurance 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 Zurich Insurance Group owns, directly or indirectly, between 20 percent and 50 percent of the voting rights. Under the equity method of accounting, investments in associates, partnerships or joint ventures are initially recognized at cost and adjusted thereafter for the post-acquisition change in the Zurich Insurance 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 Zurich Insurance Group's Consolidated Financial Statements are not material.

b) Common control business combination

A business combination of entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations between entities under common control are accounted for by applying the pooling of interest method. The acquirer (entity that receives the net assets or the equity interest) initially recognizes the assets and liabilities transferred at their previous carrying amounts in the accounts of the transferor at the date of transfer. Any difference between the consideration paid and the carrying value of the net assets received is recorded in shareholders' equity. Such business combinations are recorded as if they had taken place at the beginning of the earliest period presented (or the date that the entities were first under common control, if later), for the purpose of including the result of the transferee in the retained earnings of the acquirer.

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

IFRS does not provide specific guidance on all aspects of recognition and measurement of insurance and reinsurance contracts. The Zurich Insurance Group's accounting policies for insurance and reinsurance contracts are therefore based on those developed by the Zurich Insurance Group before the adoption of IFRS 4. At the time of adoption, the Zurich Insurance Group typically considered U.S. GAAP pronouncements issued by the Financial Accounting Standards Board (FASB) on insurance and reinsurance contracts in areas where IFRS 4 did not include specific requirements.

Classification

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

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

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

- that are likely to be a significant portion of the total contractual benefits;
- the amount or timing of which is contractually at the discretion of the Zurich Insurance 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 Zurich Insurance Group applies the same accounting policies for the recognition and measurement of obligations arising from insurance contracts and from investment contracts with DPF. These recognition and measurement criteria apply to obligations arising from the contract, deferred acquisition costs and other related intangible assets.

The Zurich Insurance 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 Zurich Insurance Group, usually from a unit-linked product into a unitized with-profits contract or similar. Certain of these products allow policyholders to switch back to the previous product at their convenience. Where this results in the reclassification of an investment product to a product that meets the definition of an insurance contract, the previously held reserve and the related deferred origination costs are also reclassified and are accounted for in accordance with the accounting policies for such products on a prospective basis.

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

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

Premiums

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

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

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

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

Deferred policy acquisition costs (DAC)

The costs of acquiring new business, including commissions, underwriting and policy issue expenses, which vary with and are directly related to the production of new business, are deferred. Certain direct response marketing costs for efforts which solicit a direct response that is specific and quantifiable are also deferred, when it can be demonstrated that such marketing results in future economic benefits.

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

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

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

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

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

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

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

Liability adequacy tests

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

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

Reserves for losses and loss adjustment expenses

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

Future life policyholders' benefits and policyholders' contract deposits

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

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

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

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

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

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

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

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

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

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

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

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

Reinsurance

The Zurich Insurance 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 Zurich Insurance Group insurance companies assume reinsurance business incidental to their normal business, as well as from the Farmers Exchanges. Reinsurance assets include balances expected from reinsurance companies for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the consolidated balance sheet unless a legal right of offset exists.

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

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

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

d) Investment contracts (without DPF)

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

Liabilities for investment contracts (unit-linked)

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

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

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

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

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

Liabilities for investment contracts (amortized cost)

Liabilities for investment contracts with fixed and guaranteed terms are measured at amortized cost, using the effective interest rate method. Transaction costs are deducted from the initial amount and form part of the effective yield. Future assumptions, except for the effective interest rate, are reviewed as of each reporting date. Changes in the liability due to changes in future assumptions are recognized in income.

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

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

Deferred origination costs (DOC)

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

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

e) Other revenue recognition

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

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

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

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

f) Net investment income

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

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

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

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

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

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

g) Investments

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

Categories of non-derivative financial instruments

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

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

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

Financial assets designated at fair value through profit or loss at inception are mainly financial assets backing unit-linked insurance and unit-linked investment contracts. Reserves relating to unit-linked insurance contracts and liabilities for unit-linked investment contracts are carried at fair value, which is determined by reference to these assets with changes in the fair value of both the asset and liability recognized in income. The designation of these assets at fair value through profit or loss eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or from recognizing the resultant gains and losses on them on a different basis to the liabilities. The fair value designation, once made, is irrevocable.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Zurich Insurance Group intends to sell in the short term or that it has designated at fair value through profit or loss or is holding as available-for-sale. Loans and receivables include loans where money is provided directly to the borrower, such as mortgage loans, policyholder loans and other loans.

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

Measurement of investments

General

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

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

Held-to-maturity financial assets

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

Financial assets carried at fair value through profit or loss

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

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

Other items

Cash and cash equivalents are short-term highly liquid investments that are readily convertible into cash. This includes cash in hand, deposits held at call with banks, other short-term investments with original maturities of three months or

less. Cash and cash equivalents also includes cash received as collateral for securities lending. Cash and cash equivalents are stated at face value.

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

Impairments of non-derivative financial instruments

General

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

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

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

Financial assets carried at amortized cost

For held-to-maturity financial assets as well as loans and receivables, impairment is considered to have occurred if it is probable that the Zurich Insurance Group will not be able to collect principal and/or interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount of held-to-maturity financial assets, loans or receivables is reduced through the use of an allowance account, and the movement in the impairment allowance is recognized as an impairment loss in income. The impairment of financial assets carried at amortized cost is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows, using the original effective interest rate for the financial assets. The impairment for mortgage loans and receivables is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for known or anticipated trends in the group of financial

assets or individual accounts. If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through income. This reversal does not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Financial assets carried at fair value

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

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

h) Derivative financial instruments

Derivative financial instruments held by the Zurich Insurance 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 Zurich Insurance Group enters into contracts that are not considered derivative financial instruments in their entirety but which include embedded derivative features. Such embedded derivatives are assessed at inception of the contract and, depending on their characteristics, are accounted for as separate derivative financial instruments.

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

Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for the underlying instrument,

time to expiry, correlations, yield curves, prepayment rates and volatility of the underlying instrument. Such inputs used in pricing models are generally market observable or derived from market observable data.

Derivative financial instruments that qualify for hedge accounting

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

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

Fair value hedges

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

Cash flow hedges

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

Discontinued hedges

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

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

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

other fair value hedge adjustments remain part of the carrying amount of the hedged asset or liability and are recognized in income as part of the gain or loss on disposal of the hedged item.

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

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 Zurich Insurance Group has transferred its contractual right to receive the cash flows from the financial asset, and either

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

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

j) 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.

k) Securities lending

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

l) Repurchase and reverse repurchase transactions

Securities sold under agreements to repurchase at a certain later date (Repurchase agreements) and securities purchased under agreements to resell (Reverse repurchase agreements) are generally accounted for as collateralized financing transactions. The securities delivered under the repurchase agreement are not derecognized from the balance sheet, when all or substantially all of the risk and rewards are retained. The proceeds received are reported as a liability under Obligation to repurchase securities. Interest expense is charged to income using the effective interest rate method over the life of the agreement.

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

In cases such as in events of default by a third party, it may be determined that the risks and rewards of ownership over the collateral have been obtained by the Zurich Insurance Group. At such point in time, the securities held under the

reverse repurchase agreement are recognized on the balance sheet at fair value and the original receivable is derecognized. Any shortfall is recorded as a loss in income.

m) Borrowings

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

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

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

n) Interest expense

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

o) Goodwill

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

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

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

The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value-in-use. Fair value less costs to sell is based on the best information available to reflect the amount that the Zurich Insurance 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.

p) Other intangible assets

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

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and to use it;
- the software is expected to generate future economic benefits;
- sufficient 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 customer relationships and contracts, affinity partnerships and distribution agreements extend up to 30 years and are estimated based on the period of time over which they are expected to provide economic benefits and taking into account all relevant economic and legal factors such as usage of the assets, typical product life cycles, potential obsolescence, stability of the industry, competitive position and the period of control over the assets.

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

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

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

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

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

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

Attorney-in-fact relationships (AIF)

The AIF reflects the ability of the Zurich Insurance Group to generate future revenues based on the Zurich Insurance Group's relationship with the Farmers Exchanges. In determining that these relationships have an indefinite useful life, the Zurich Insurance 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.

q) Income taxes

The Zurich Insurance Group provides current tax expense according to the tax laws of each jurisdiction in which it operates. Deferred income taxes are recognized using the asset and liability method. Deferred income taxes are

recorded for temporary differences, which are based on the difference between financial statement carrying amounts and income tax bases of assets and liabilities using enacted income tax rates and laws. Losses for tax purposes are treated as deferred tax assets to the extent it is probable that the losses can offset future taxable income in the respective jurisdiction.

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

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

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

r) Employee benefits

Retirement benefits

The operating companies in the Zurich Insurance 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 Zurich Insurance Group's general assets in trustee-administered funds. Defined benefit plan obligations and contributions are determined annually by qualified actuaries using the projected unit credit method. The Zurich Insurance Group's expense relating to these plans is accrued over the employees' service periods based upon the actuarially determined cost for the period.

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

Other post-employment benefits

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

s) Share-based compensation and cash incentive plans

Share based compensation plans include plans under which shares and options to purchase shares of Zurich Financial Services Ltd (the ultimate parent not part of the Zurich Insurance Group), based on the performance of the businesses, are awarded by Zurich Financial Services Ltd directly to employees of entities within the Zurich Insurance Group.

Under the Zurich Insurance 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 Zurich Insurance Group revises its estimates of the number of shares and/or options that are expected to be issued or become exercisable. It recognizes the impact of the revision to original estimates, if any, in income with a corresponding adjustment to equity. However, no subsequent adjustment to total equity is made after the vesting date.

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

Under the Zurich Insurance Group's cash-settled share-based payment compensation plan, the Zurich Insurance Group allows participants to take their option award in the form of Share Appreciation Rights (SAR). Hence, the Zurich Insurance Group incurs a liability which is measured at the fair value of the SAR. As the fair value of the options which the Zurich Insurance Group uses for its employee schemes cannot be compared with those in the market, the Zurich Insurance 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.

t) Property and equipment

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

- buildings 25 to 50 years;
- furniture and fixtures five to ten years; and
- computer equipment three to six years.
- land held for own use is carried at cost less any accumulated impairment loss.

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

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

u) Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the period of the

lease, unless another systematic basis is representative of the time pattern of the user's benefit even if the payments are not on that basis.

v) Provisions

Provisions are recognized when the Zurich Insurance 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 Zurich Insurance 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.

w) Foreign currency translation and transactions

Foreign currency translation

In view of the international nature of the Zurich Insurance 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 Zurich Insurance Group's economic exposure to the U.S. dollar (USD), the presentation currency of the Zurich Insurance Group has been determined to be the USD. Assets and liabilities of Zurich Insurance Group companies with functional currencies other than USD are translated into the presentation currency at end-of-period exchange rates, while income statements are translated at average exchange rates for the period. The resulting translation differences are recorded directly in shareholders' equity as cumulative translation adjustments.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rate at the date of the transaction or, for practical reasons, a weighted average rate, if exchange rates do not fluctuate significantly.

Foreign currency monetary items and foreign currency non-monetary items, which are carried at fair value, are translated at end-of-period exchange rates. Foreign currency non-monetary items which are carried at historical cost are translated at historical exchange rates. The resulting foreign currency translation differences are recorded in income, except for the following:

- when the gain or loss on non-monetary items measured at fair value, such as available-for-sale equity securities, is recognized directly in shareholders' equity, any foreign currency component of that gain or loss is also recognized directly in shareholders' equity;
- changes in the fair value of monetary items denominated in foreign currency, such as debt securities, that are classified as available-for-sale, are analyzed between foreign currency translation differences resulting from changes in the amortized cost of the security and other fair value changes of the security. Foreign currency translation differences related to changes in amortized cost are recognized in income, and those related to other changes in fair value are recognized in shareholders' equity; and
- on consolidation, foreign currency translation differences arising on monetary items that form part of net investments in foreign operations are recognized directly in shareholders' equity.

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

4. Critical accounting judgements and estimates

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

a) Reserves for losses and loss adjustment expenses

The Zurich Insurance Group is required to establish reserves for payment of losses and loss adjustment expenses that arise from the Zurich Insurance 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 Zurich Insurance Group establishes its reserves by product line, type and extent of coverage and year of occurrence. Loss reserves fall into two categories: reserves for reported losses and reserves for IBNR losses. Additionally, reserves are held for loss adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

The Zurich Insurance 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 Zurich Insurance Group bases such estimates on the facts available at the time the reserves are established. The Zurich Insurance Group generally establishes these reserves on an undiscounted basis to recognize the estimated costs of bringing pending claims to final settlement, taking into account inflation, as well as other factors that can influence the amount of reserves required, some of which are subjective and some of which are dependent on future events. In determining the level of reserves, the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group establishes IBNR reserves, generally on an undiscounted basis, to recognize the estimated cost of losses for events which have already occurred but which have not yet been notified. These reserves are established to recognize the estimated costs required to bring claims for these not yet reported losses to final settlement. As these losses have not yet been reported, the Zurich Insurance Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The Zurich Insurance Group also uses reported claim trends, claim severities, exposure growth, and other factors in estimating its IBNR reserves. The Zurich Insurance Group revises these reserves as additional information becomes available and as claims are actually reported.

The time required to learn of and settle claims is an important consideration in establishing the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's actuaries. Additionally, the Zurich Insurance Group's Corporate Center actuaries perform periodic reserve reviews of the Zurich Insurance Group's businesses throughout the world. Management considers the results of these reviews and adjusts its reserves for losses and loss adjustment expenses, where necessary.

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

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

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

- The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty arises because of the potential for pandemics and wide-ranging lifestyle changes, such as changes in eating, smoking and exercise habits, which could result in earlier deaths for age groups in which the Zurich Insurance 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 Zurich Insurance Group is exposed to longevity risk.
- Under certain contracts, the Zurich Insurance 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 Zurich Insurance Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions, available experience studies and profitability analysis.

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

c) Fair value of financial assets and liabilities

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

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

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

Discounted cash flow models are used for mortgage and other loans and long term receivables. The discount rates used in these models are either current interest rates charged by the Zurich Insurance 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 Zurich Insurance Group are estimated using discounted cash flow models based upon the Zurich Insurance Group's current incremental borrowing rates for similar types of borrowings, with maturities consistent with those remaining for the debt instruments being valued.

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

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

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

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

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

In cases where significant reliance is placed on an independent price provider, the Zurich Insurance Group has engaged with that price provider to confirm that the control environment conforms to the high standards that the Zurich Insurance Group expects. In addition, the Zurich Insurance Group ensures that independently sourced prices are determined based on valuation techniques that incorporate all factors that market participants would consider in setting a price and are consistent with best practice methodologies for pricing financial instruments. Such models make maximum use of market inputs such as benchmark yields, reported trades and broker/dealer quotes. The Zurich Insurance 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 Zurich Insurance Group's in-house investment professionals.

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

d) Impairment of assets

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

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

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

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

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

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

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

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

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

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

the relief from royalty method is generally applied and resulting cash-flows are discounted at applicable market rates. For information technology intangibles the replacement cost method is generally applied.

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

f) Deferred policy acquisition costs

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

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

g) Deferred taxes

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

Refer to note 21 for further information on deferred taxes.

h) Employee benefits

The Zurich Insurance Group provides defined benefit pension plans and other post-employment plans. In assessing the Zurich Insurance 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 Zurich Insurance Group sets the discount rate by creating a hypothetical portfolio of high quality corporate bonds for which the timing and amount of cash outflows approximate the estimated payouts of the defined benefit plan. These assumptions may differ from actual results due to changing economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in variability of pension income or expense recorded in future years.

Refer to note 24 for further information on employee benefits.

i) Share-based compensation and cash incentive plans

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

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

5. Acquisitions and divestments

Recent developments

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

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, of which the Zurich Insurance Group owns 73.6 percent, by 15.1 percent from 10 percent to 25.1 percent with option rights to increase up to 50.1 percent or sell the entire stake back to the Zurich Insurance Group.

Transactions in 2009

Acquisitions

Business combinations – current period	Table 5.1			
	in USD millions	21st Century ¹	Minas Brasil	Total
	Book value of net assets prior to acquisition	147	9	156
	Fair value of net tangible assets acquired	8	9	17
	Identifiable intangible assets, net of deferred tax	91	19	110
	Goodwill	440	114	553
	Total acquisition costs	539	143	681
	Cash consideration	320	135	455
	Subordinated capital notes transferred	201	–	201
	Transaction costs	18	3	21
	Present value of deferred payments	–	4	4
	Cash and cash equivalents acquired	–	47	47

¹ The 21st Century purchase price allocation is provisional.

On July 1, 2009, the Zurich Insurance 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 Zurich Insurance Group contemporaneously sold the regulated insurance businesses and certain other related net assets to the Farmers Exchanges, which the Zurich Insurance Group manages but does not own, for USD 1,372 million in cash, resulting in a net purchase price of USD 521 million for the management services business retained by the Zurich Insurance Group. Up to December 31, 2009, the Zurich Insurance Group has incurred transaction costs directly attributable to the business combination of USD 18 million, which are included in the total acquisition costs of USD 539 million. Based on the provisional purchase price allocation, net tangible assets of USD 8 million and capitalized software of USD 91 million were acquired. The residual goodwill of USD 440 million reflects the economic benefit of the retained management services business. Total revenues and business operating profit of the retained management services business for the six months starting July 1, 2009 and ending December 31, 2009 were USD 214 million and USD 81 million, respectively. The book value of net assets prior to acquisition amounted to USD 147 million. The purchase price allocation will be finalized in 2010.

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

Divestments

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

Transactions in 2008

Acquisitions

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

Table 5.2

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

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

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

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

“Banco Sabadell” sets out the acquisition of 50 percent of life insurance, pension and general insurance operations of Banco Sabadell S.A. (Banco Sabadell), all based in Spain, which the Zurich Insurance Group completed on September 18, 2008. Following price adjustments during 2009 in accordance with the purchase agreement, total acquisition costs for BanSabadell Vida S.A. de Seguros y Reaseguros (BSV) and BanSabadell Pensiones E.G.F.P., S.A. (BSP) amounted to USD 905 million (initially USD 832 million) and included net tangible assets acquired of USD 157 million (initially USD 181 million) and identifiable intangible assets, net of deferred tax, of USD 1,652 million (initially USD 1,483 million). Identifiable intangible assets before tax amounted to USD 2,358 million (initially USD 2,117 million), mainly relating to the life insurance and pension distribution agreement with Banco Sabadell of USD 1,918 million (initially USD 1,665 million) and the present value of profits of acquired insurance contracts of USD 437 million (initially USD 449 million). Total acquisition costs for BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros (BSG) amounted to USD 145 million and included net tangible assets acquired of USD 10 million and identifiable intangible assets, net of deferred tax, of USD 280 million (USD 396 million before tax, mainly relating to the general insurance distribution agreement with Banco Sabadell). 50 percent of net tangible assets acquired and of identifiable intangible assets, net of deferred tax, reflecting non-controlling interests in BSV, BSP and BSG, amounted in total to USD 1,049 million (initially USD 976 million). The Zurich Insurance Group has management control of the three jointly owned companies and fully consolidates them.

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

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

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

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

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

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

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

Divestments

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

6. Investments

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	
	2009	2008	2009	2008	2009	2008
Cash and cash equivalents	179	682	94	(60)	273	622
Equity securities	1,640	3,023	10,538	(25,444)	12,179	(22,421)
Debt securities	5,861	6,647	(148)	(1,924)	5,712	4,723
Real estate held for investment	804	933	(352)	(1,596)	452	(664)
Mortgage loans	427	435	1	(7)	428	428
Other loans	767	674	22	2	789	676
Equity method accounted investment	4	8	(4)	–	–	8
Other investments ¹	68	220	(811)	1,340	(743)	1,561
Investment result, gross	9,750	12,622	9,339	(27,689)	19,089	(15,067)
Investment expenses	(669)	(842)	–	–	(669)	(842)
Investment result, net	9,081	11,780	9,339	(27,689)	18,420	(15,909)

¹ Including net capital gains/(losses) on derivative financial instruments of USD (508) million and USD 1,335 million for the years ended December 31, 2009 and 2008, respectively, of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 33 million and USD 5 million for the years ended December 31, 2009 and 2008, respectively. Net capital gains/(losses) for the year 2009, includes USD 303 million losses from redemption of holding, in related foreign companies.

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

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	
	2009	2008	2009	2008	2009	2008
Cash and cash equivalents	107	528	6	1	113	528
Equity securities	385	656	(262)	(2,827)	123	(2,171)
Debt securities	5,527	6,061	(536)	(1,573)	4,991	4,488
Real estate held for investment	464	491	131	210	594	700
Mortgage loans	427	435	1	(7)	428	428
Other loans	761	673	22	2	783	676
Equity method accounted investment	4	8	(4)	–	–	8
Other investments ¹	12	5	(856)	1,421	(844)	1,425
Investment result, gross for Group investments	7,686	8,856	(1,498)	(2,773)	6,188	6,083
Investment expenses for Group investments	(243)	(261)	–	–	(243)	(261)
Investment result, net for Group investments	7,443	8,595	(1,498)	(2,773)	5,945	5,822

¹ Including net capital gains/(losses) on derivative financial instruments of USD 553 million and USD 1,446 million for the years ended December 31, 2009 and 2008, respectively, of which net capital gains/(losses) on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 33 million and USD 5 million for the years ended December 31, 2009 and 2008, respectively. Net capital gains/(losses) for the year 2009, includes USD 303 million losses from redemption of holding, in related foreign companies.

For the years ended December 31, 2009 and 2008, respectively, impairment charges on Group investments included in net capital losses amounted to USD 1,158 million and USD 2,435 million, of which impairment charges on mortgage loans and other investments comprised USD 5 million and USD 27 million, respectively.

Investment
result for
unit-linked
contracts

Table 6.1c

in USD millions, for the years ended December 31

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

¹ Including net capital losses on derivative financial instruments of USD 45 million and USD (111) million for the years ended December 31 2009 and 2008, respectively.Net capital
gains, losses and
impairments on
equity and debt
securities on
total investments

Table 6.2

in USD millions, for the years ended December 31

	Equity securities		Debt securities		Total	
	2009	2008	2009	2008	2009	2008
Securities at fair value through profit or loss:	11,273	(23,672)	392	(548)	11,666	(24,221)
Net capital gains/(losses) on Group investments						
<i>Trading securities</i>	69	(319)	(2)	(23)	66	(343)
<i>Securities designated at fair value through profit or loss</i>	405	(736)	7	(173)	412	(909)
Net capital gains/(losses) for unit-linked contracts	10,800	(22,617)	387	(351)	11,187	(22,968)
Available-for-sale securities:	(735)	(1,772)	(477)	(1,307)	(1,212)	(3,078)
Realized capital gains on Group investments	326	556	988	458	1,314	1,013
Realized capital losses on Group investments	(471)	(1,130)	(955)	(622)	(1,426)	(1,752)
Impairments on Group investments	(590)	(1,197)	(510)	(1,142)	(1,100)	(2,340)
Held-to-maturity securities ¹	–	–	(64)	(69)	(64)	(69)
Total net capital gains/(losses) and impairments	10,538	(25,444)	(148)	(1,924)	10,390	(27,368)

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

Details of total
investments by
category

Table 6.3a

as of December 31

	Total investments			
	2009		2008	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	19,380	6.6	18,476	7.1
Equity securities:				
Fair value through profit or loss	83,085	28.2	64,626	25.0
<i>of which: trading</i>	635	0.2	895	0.3
<i>of which: trading equity portfolios in capital markets</i>	217	0.1	262	0.1
Available-for-sale	7,745	2.6	9,313	3.6
Total equity securities	90,830	30.8	73,939	28.6
Debt securities:				
Fair value through profit or loss	17,037	5.8	16,801	6.5
<i>of which: trading</i>	82	0.0	186	0.1
Available-for-sale	124,073	42.0	105,752	40.9
Held-to-maturity	5,143	1.7	5,244	2.0
Total debt securities	146,254	49.6	127,797	49.4
Real estate held for investment	11,686	4.0	11,601	4.5
Mortgage loans	10,472	3.5	10,715	4.1
Other loans	16,259	5.5	15,071	5.8
Equity method accounted investments	229	0.1	217	0.1
Holding in related companies ¹	–	0.0	721	0.3
Total investments	295,110	100.0	258,538	100.0

¹ Holding in related companies comprises preferred stock primarily from Zürich Lebensversicherungs-Gesellschaft and Zürich Versicherungs-Gesellschaft.

Details
of Group
investments
by category

Table 6.3b

as of December 31

	Group investments			
	2009		2008	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	13,540	6.9	14,016	7.8
Equity securities:				
Fair value through profit or loss	4,774	2.4	4,472	2.5
<i>of which: trading</i>	635	0.3	895	0.5
<i>of which: trading equity portfolios in capital markets</i>	217	0.1	262	0.1
Available-for-sale	7,745	4.0	9,313	5.2
Total equity securities	12,519	6.4	13,785	7.6
Debt securities:				
Fair value through profit or loss	6,843	3.5	7,291	4.0
<i>of which: trading</i>	82	0.0	186	0.1
Available-for-sale	124,073	63.3	105,752	58.6
Held-to-maturity	5,143	2.6	5,244	2.9
Total debt securities	136,059	69.4	118,287	65.6
Real estate held for investment	7,789	4.0	7,524	4.2
Mortgage loans	10,472	5.3	10,715	5.9
Other loans	15,335	7.8	15,069	8.4
Equity method accounted investments	229	0.1	217	0.1
Holding in related companies ¹	–	0.0	721	0.4
Total Group investments	195,943	100.0	180,335	100.0

¹ Holding in related companies comprises preferred stock primarily from Zürich Lebensversicherungs-Gesellschaft and Zürich Versicherungs-Gesellschaft.

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

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

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

As of December 31, 2009 and 2008, respectively, debt securities with a carrying value of USD 3,938 million and USD 3,608 million have been sold to financial institutions under short-term sale and repurchase agreements. These securities continue to be recognized as investments in the balance sheets. Obligations to repurchase these securities comprised USD 3,976 million and USD 3,608 million as of December 31, 2009 and 2008, respectively. The Zurich Insurance 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.

Details of
investments held for
unit-linked contracts

Table 6.3c

as of December 31

	Investments for unit-linked contracts			
	2009		2008	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	5,840	5.9	4,460	5.7
Equity securities	78,311	79.0	60,154	76.9
Debt securities	10,194	10.3	9,510	12.2
Real estate held for investment	3,897	3.9	4,077	5.2
Other loans	924	0.9	2	0.0
Total investments for unit-linked contracts	99,167	100.0	78,203	100.0

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

Debt securities
maturity schedule
(total investments)

Table 6.4

in USD millions, as of December 31

	Held-to-maturity		Available-for-sale		Fair value through profit or loss	
	2009	2008	2009	2008	2009	2008
Debt securities:						
< 1 year	357	571	9,689	7,790	1,403	2,665
1 to 5 years	1,517	1,190	42,911	34,156	5,098	3,297
5 to 10 years	1,189	1,220	26,243	21,924	4,158	4,632
> 10 years	2,081	2,263	22,941	19,854	4,848	4,769
Subtotal	5,143	5,244	101,784	83,722	15,508	15,363
Mortgage and asset-backed securities:						
< 1 year	–	–	1,288	759	69	68
1 to 5 years	–	–	5,323	4,891	370	307
5 to 10 years	–	–	5,114	5,392	351	323
> 10 years	–	–	10,565	10,988	741	741
Subtotal	–	–	22,290	22,030	1,530	1,438
Total	5,143	5,244	124,073	105,752	17,037	16,801

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

Available-for-sale
securities

Table 6.5

in USD millions, as of December 31

	Cost or amortized cost ¹		Gross unrealized gains		Gross unrealized losses		Fair value	
	2009	2008	2009	2008	2009	2008	2009	2008
Equity securities								
Common stock	4,256	5,059	827	352	(423)	(1,016)	4,659	4,395
Unit trusts	3,359	5,556	166	157	(586)	(944)	2,939	4,769
Non-redeemable preferred stock	153	190	10	–	(15)	(40)	148	149
Total equity securities	7,767	10,804	1,002	509	(1,024)	(2,000)	7,745	9,313
Debt securities								
Swiss federal and cantonal governments	2,788	3,657	199	212	(2)	(1)	2,986	3,868
United Kingdom government	7,648	5,748	176	397	(30)	(2)	7,794	6,143
United States government	8,050	5,582	129	484	(237)	(38)	7,942	6,028
Other governments and supra-nationals	29,727	24,987	1,060	1,042	(233)	(207)	30,554	25,821
Corporate securities	51,757	44,101	2,186	1,098	(1,454)	(3,378)	52,489	41,821
Mortgage and asset-backed securities	22,787	24,412	556	310	(1,053)	(2,692)	22,290	22,030
Redeemable preferred stocks	18	56	1	–	–	(15)	19	41
Total debt securities	122,775	108,544	4,308	3,542	(3,009)	(6,334)	124,073	105,752

¹ Net of impairments (see table 6.2).

Fair value through
profit or loss
securities

Table 6.6

as of December 31

	Group investments				Investments for unit-linked products		Total investments	
	2009		2008		2009	2008	2009	2008
	USD millions	% of total	USD millions	% of total	USD millions	USD millions	USD millions	USD millions
Equity securities:								
Common stock	3,933	33.9%	3,878	33.0%	42,773	33,068	46,706	36,946
<i>of which: trading equity portfolios in capital markets</i>	217	1.9%	262	2.2%	–	–	217	262
<i>of which: common stock portfolios backing participating with profit policyholder contracts</i>	674	5.8%	630	5.4%	–	–	674	630
Unit trusts	840	7.2%	594	5.0%	35,521	27,069	36,361	27,663
Non-redeemable preferred stock	–	0.0%	–	0.0%	17	17	17	17
Total equity securities	4,774	41.1%	4,472	38.0%	78,311	60,154	83,085	64,626
Debt securities:								
Debt securities	5,621	48.4%	6,111	51.9%	9,887	9,252	15,507	15,363
<i>of which: trading debt securities in capital markets</i>	20	0.2%	121	1.0%	–	–	20	121
Mortgage and asset- backed securities	1,222	10.5%	1,180	10.0%	308	258	1,530	1,438
Total debt securities	6,843	58.9%	7,291	62.0%	10,194	9,510	17,037	16,801
Total	11,616	100.0%	11,763	100.0%	88,505	69,665	100,122	81,427

Table 6.7

as of December 31

Held-to-maturity
debt securities

	2009	2008
	USD millions	USD millions
Swiss federal and cantonal governments	1,635	1,590
United States government	1,310	1,669
Other governments and supra-nationals	849	819
Corporate securities	1,350	1,165
Total held-to-maturity debt securities	5,143	5,244

Table 6.8

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

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

Table 6.9

Equity method accounted investments	in USD millions, as of December 31	Carrying value		Share in profit		Ownership interest	
		2009	2008	2009	2008	2009	2008
	Associates:						
	DKN Financial Group Limited	60	50	(3)	2	30.99%	31.84%
	Seven Investment Management Limited	17	15	–	(3)	49.00%	49.00%
	Other	9	13	(1)	1	–	–
	Joint ventures:						
	MCIS Zurich Insurance Berhad	37	37	1	2	40.00%	40.00%
	Other	11	9	1	1	–	–
	SPEs: ¹						
	Euclid Office, L.P.	28	25	1	1	99.00%	99.00%
	Other	68	69	4	3	–	–
	Total	229	217	4	8	–	–

¹ Zurich Insurance 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.

Table 6.10

Net unrealized gains/(losses) on group investments included in shareholders' equity	in USD millions, as of December 31	Total	
		2009	2008
	Equity securities: available-for-sale	(22)	(1,491)
	Debt securities: available-for-sale	1,298	(2,792)
	Other	84	9
	Less: amount of net unrealized gains/(losses) on investments attributable to:		
	Life policyholder dividends and other policyholder liabilities	(665)	236
	Life deferred acquisition costs	(97)	251
	Deferred income taxes	(286)	831
	Non-controlling interests	(17)	(6)
	Total¹	295	(2,963)

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

7. Derivative financial instruments and hedge accounting

The Zurich Insurance 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 Zurich Insurance Group may also use derivatives to protect itself against the credit risk of counterparties.

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

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

Table 7.1

in USD millions, as of December 31

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

in USD millions, as of December 31	2009						2008		
					Positive fair values	Negative fair values		Positive fair values	Negative fair values
	Maturity by notional amount			Notional amounts			Notional amounts		
	< 1 year	1 to 5 years	> 5 years						
Interest rate contracts:									
OTC									
Swaps	1	92	846	939	97	(7)	1,135	164	(20)
Swaptions	167	1,114	1,845	3,126	126	(14)	2,976	260	(21)
Exchange traded									
Futures	28	3	–	31	–	–	16	1	–
Total interest rate contracts	197	1,209	2,691	4,096	223	(21)	4,126	424	(42)
Equity contracts:									
OTC									
Puts	2,050	3,152	1,853	7,055	286	(203)	4,871	445	(288)
Calls	1,452	371	358	2,181	23	(208)	627	27	(27)
Exchange traded									
Futures	411	2	–	413	–	–	–	–	–
Total equity contracts	3,913	3,525	2,211	9,649	309	(411)	5,498	472	(315)
Foreign exchange contracts:									
OTC									
Cross Currency Swaps	–	737	–	737	21	–	81	–	(28)
Forwards	12,802	–	–	12,802	109	(105)	15,901	306	(1,044)
Total foreign exchange contracts	12,802	737	–	13,539	130	(105)	15,982	307	(1,072)
Credit contracts:									
OTC									
Credit Default Swaps	187	462	–	649	3	(8)	776	91	(6)
Total credit contracts	187	462	–	649	3	(8)	776	91	(6)
Other contracts:									
OTC									
Puts	2	–	1,043	1,046	–	(40)	938	–	(32)
Total Return Swaps	–	–	71	71	–	(1)	74	–	(2)
Total other contracts	2	–	1,114	1,116	–	(41)	1,012	–	(34)
Total	17,101	5,932	6,016	29,049	664	(586)	27,394	1,293	(1,468)

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

Equity contracts

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

Foreign exchange contracts

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

The notional amounts of foreign exchange forwards decreased by USD 2,443 million between December 31, 2008 and December 31, 2009, mostly due to a decrease in underlying foreign exchange exposures. The Zurich Insurance Group has also entered into new swaps positions to hedge the foreign currency risk arising from certain debt issued.

Credit contracts

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

Other contracts

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

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

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

Maturity profile of notional amounts and fair values of derivative financial instruments	Table 7.2								
	in USD millions, as of December 31								
	Maturity by notional amount			Notional principal amounts	Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values
	< 1 year	1 to 5 years	> 5 years						
Fair value hedges:									
Cross currency interest rate swaps	–	244	614	858	204	–	975	141	–
Currency swaps	–	1	70	71	–	(29)	–	–	–
Total fair value hedges	–	245	684	929	204	(29)	975	141	–
Cash flow hedges:									
Options on interest rate swaps	–	–	3,474	3,474	171	–	3,373	209	–
Currency swaps	–	975	793	1,768	255	–	1,114	63	–
Interest rate swaps	155	257	154	566	2	(6)	–	–	–
Total cash flow hedges	155	1,232	4,421	5,808	428	(6)	4,487	272	–

Fair value hedges

Designated fair value hedges consist of cross currency interest rate swaps used to protect the Zurich Insurance Group against changes in foreign currency exposure and interest rate exposure of Euro-denominated debt issued by the Zurich Insurance Group. A fair value hedge relationship on the EUR 500 million 4.5 percent subordinated bond due for repayment in June 2025 issued by Zurich Finance (USA), Inc. (see note 21), was entered into at the issuance of the debt instrument in 2005 and will end on June 15, 2015.

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

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

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

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

Gains/(losses) arising from fair value hedges	Table 7.3		
	in USD millions, as of December 31		
Gains/(losses)			2009
<i>on hedging instruments¹</i>			62
<i>on hedged item attributable to the hedged risk</i>			(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 Zurich Insurance 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 Zurich Insurance Group also uses currency swaps for cash flow hedging to protect against exposures to variability of cash flows. The change in the fair value of the hedging instrument is recognized directly in comprehensive income. The ineffective portion of the change in fair value is recognized directly in income within administrative and other operating expense. The effective portion, related to spot rate changes in fair value of the hedging instrument, is reclassified to income within administrative and other operating expense as an offset to foreign currency revaluation on the underlying hedged debt.

As of December 31, 2009 the following cash flow hedge relationships were in place (see note 22):

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

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

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

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

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

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

Table 8.1			
Reserves for insurance contracts	in USD millions, as of December 31	2009	2008
	Gross		
	Reserves for losses and loss adjustment expenses	68,086	65,218
	Reserves for unearned premiums	17,676	16,399
	Future life policyholders' benefits	78,589	76,218
	Policyholders' contract deposits and other funds	18,857	17,047
	Reserves for unit-linked contracts	58,204	47,297
	Total reserves for insurance contracts, gross	241,412	222,179
	Ceded		
	Reserves for losses and loss adjustment expenses	(12,182)	(12,232)
	Reserves for unearned premiums	(2,000)	(1,889)
	Future life policyholders' benefits	(2,076)	(1,873)
	Policyholders' contract deposits and other funds	(2,457)	(2,690)
	Reinsurers' share of reserves for insurance contracts, ceded¹	(18,715)	(18,684)
	Net		
	Reserves for losses and loss adjustment expenses	55,903	52,986
	Reserves for unearned premiums	15,676	14,510
	Future life policyholders' benefits	76,514	74,345
	Policyholders' contract deposits and other funds	16,400	14,357
	Reserves for unit-linked contracts	58,204	47,297
	Total reserves for insurance contracts, net	222,697	203,495

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

Table 8.2							
Development of reserves for losses and loss adjustment expenses	in USD millions	Gross		Ceded		Net	
		2009	2008	2009	2008	2009	2008
	As of January 1	65,218	67,890	(12,232)	(13,179)	52,986	54,712
	Losses and loss adjustment expenses incurred:						
	Current year	28,308	28,296	(2,610)	(2,879)	25,698	25,416
	Prior years	(933)	(1,354)	(126)	83	(1,059)	(1,271)
	Total incurred	27,375	26,942	(2,736)	(2,796)	24,639	24,145
	Losses and loss adjustment expenses paid:						
	Current year	(11,178)	(10,190)	536	591	(10,642)	(9,599)
	Prior years	(15,547)	(15,080)	2,500	2,528	(13,047)	(12,551)
Total paid	(26,725)	(25,269)	3,036	3,119	(23,689)	(22,150)	
Acquisitions/(divestments) of companies and businesses	103	105	1	(28)	104	77	
Foreign currency translation effects	2,114	(4,450)	(251)	653	1,863	(3,797)	
As of December 31	68,086	65,218	(12,182)	(12,232)	55,903	52,986	

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

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

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

**Development of
insurance losses,
net**

Table 8.3

in USD millions, as of December 31

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

Table 8.3 presents changes in the historical non-life reserves, net of reinsurance, that the Zurich Insurance Group established in 2001 and subsequent years. Reserves are presented by financial year, not by accident year. The reserves (and the development thereon) are for all accident years in that financial year. The top line of the table shows the estimated gross reserves for unpaid losses and loss adjustment expenses as of each balance sheet date, which represents the estimated amount of future payments for losses incurred in that year and in prior years. The cumulative paid portion of the table presents the cumulative amounts paid through each subsequent year in respect of the reserves established at each year end. The net reserves re-estimated portion of the table shows the re-estimation of the initially recorded reserve as of each succeeding year end. Reserve development is shown in each column. Changes to estimates are made as more information becomes known about the actual losses for which the initial reserves were established.

The cumulative deficiency or redundancy is equal to the initial net reserves less the liability re-estimated as of December 31, 2009. It is the difference between the initial net reserve estimate and the last entry of the diagonal. Conditions and trends that have affected the development of our reserves for losses and loss adjustment expenses in the past may or may not necessarily occur in the future, and accordingly, conclusions about future results may not be derived from the information presented in table 8.3.

Table 8.4

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

in USD millions	2009		2008	
	Gross	Net	Gross	Net
Asbestos				
As of January 1	3,001	2,523	3,799	3,238
Losses and loss adjustment expenses incurred	652	539	240	196
Losses and loss adjustment expenses paid	(299)	(281)	(339)	(278)
Foreign currency translation effects	251	217	(699)	(632)
As of December 31	3,604	2,998	3,001	2,523
Environmental				
As of January 1	332	277	394	326
Losses and loss adjustment expenses incurred	7	4	(11)	–
Losses and loss adjustment expenses paid	(61)	(40)	(57)	(51)
Foreign currency translation effects	1	1	6	2
As of December 31	280	242	332	277

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

While the Zurich Insurance 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 Zurich Insurance Group's results of operations, cash flows and financial position. The net reserve amounts relating to such claims are not discounted for the time value of money.

Development of
future life
policyholders'
benefits

Table 8.5

in USD millions

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

¹ Effective June 30, 2008, the underlying contracts relating to a UK annuity portfolio ceded in 2007 for an amount of USD 7.1 billion were transferred to the reinsurer, resulting in a reduction of gross and ceded future life policyholders' benefits.

² The 2009 movement represents the transfer to reserves for unit-linked contracts (see note 1 for further details).

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

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

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

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

Table 8.6

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

Table 8.7

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

Table 8.8

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

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

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

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

Table 8.9

Information on
guaranteed
liabilities

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

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

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

Table 9.1

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

Unit-linked investment contracts issued by the Zurich Insurance 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

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

10. Equity component relating to contracts with DPF

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

Table 10

Development of the equity component relating to contracts with DPF	in USD millions	2009	2008
	As of January 1	1,221	1,309
	Net unrealized (losses)/gains on investments	381	(371)
	Current period profit	192	230
	Foreign currency translation effects	44	53
	As of December 31	1,837	1,221

11. Gross and ceded insurance revenues and expenses

Insurance benefits and losses	Table 11.1 in USD millions, for the years ended December 31					
	Gross		Ceded		Net	
	2009	2008	2009	2008	2009	2008
Losses and loss adjustment expenses	27,375	26,942	(2,736)	(2,796)	24,639	24,145
Life insurance death and other benefits	11,816	11,315	(460)	(778)	11,356	10,538
Change in future life policyholders' benefits	330	(6,870)	(64)	6,999	266	128
Total insurance benefits and losses¹	39,522	31,387	(3,261)	3,425	36,261	34,811

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

Policyholder dividends and participation in profits	Table 11.2 in USD millions, for the years ended December 31					
	Gross		Ceded		Net	
	2009	2008	2009	2008	2009	2008
Change in policyholders' contract deposits and other funds	483	(602)	–	40	484	(562)
Change in reserves for unit-linked products	6,911	(13,239)	–	–	6,911	(13,239)
Change in liabilities for investment contracts – unit-linked	5,623	(8,384)	–	–	5,623	(8,384)
Change in liabilities for investment contracts – other	206	147	–	–	206	147
Change in unit-linked liabilities related to UK capital gains tax	(364)	524	–	–	(364)	524
Total policyholder dividends and participation in profits	12,859	(21,554)	–	40	12,859	(21,514)

Underwriting and policy acquisition costs	Table 11.3 in USD millions, for the years ended December 31					
	Gross		Ceded		Net	
	2009	2008	2009	2008	2009	2008
Amortization of deferred acquisition costs	5,153	4,684	(394)	(458)	4,759	4,226
Amortization of deferred origination costs	110	122	–	–	110	122
Commissions and other underwriting and acquisition expenses ¹	3,713	4,479	(328)	(540)	3,385	3,939
Total underwriting and policy acquisition costs	8,976	9,285	(723)	(998)	8,254	8,287

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

Change in reserves for unearned premiums	Table 11.4 in USD millions, for the years ended December 31					
	Gross		Ceded		Net	
	2009	2008	2009	2008	2009	2008
Change in reserves for unearned premiums	826	1,781	(80)	(220)	746	1,560

12. Deferred policy acquisition costs and deferred origination costs

Table 12.1

Development of deferred policy acquisition costs

in USD millions	General Insurance		Global Life		Other segments ¹		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
As of January 1	3,247	3,306	10,768	11,571	308	65	14,323	14,941
Acquisition costs deferred	3,012	2,918	1,793	1,736	1,403	580	6,208	5,234
Amortization	(2,965)	(2,851)	(614)	(1,038)	(1,180)	(336)	(4,759)	(4,226)
Amortization charged/ (credited)								
to shareholders' equity	–	–	(291)	128	7	(2)	(284)	126
Transfers ²	–	–	(28)	–	–	–	(28)	–
Foreign currency translation effects	80	(125)	648	(1,629)	(7)	2	721	(1,752)
As of December 31	3,374	3,247	12,276	10,768	531	308	16,181	14,323

¹ Net of eliminations from intersegment transactions.

² The 2009 movement represents the reclassification from insurance contracts to investment contracts (see note 1 for further details).

Table 12.2

Development of deferred origination costs

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

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

13. Administrative and other operating expenses

Table 13

Administrative and other operating expenses

in USD millions, for the years ended December 31	2009	2008
Wages and salaries	2,892	2,861
Other employee benefits	557	445
Amortization and impairments of assets	867	634
Rent, leasing and maintenance	394	365
Marketing costs	315	372
Life renewal commission	318	309
Premium, asset and other non-income taxes	173	145
IT costs	734	812
Other	912	821
Total	7,162	6,764

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.

14. Farmers management fees and other related revenues

Farmers management fees and other related revenues	Table 14		
	in USD millions, for the years ended December 31		
		2009	2008
	Farmers management fees and other related revenues	2,690	2,458

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

15. Receivables

Receivables	Table 15.1		
	in USD millions, as of December 31		
		2009	2008
	Financial instruments		
	Receivables from policyholders	3,415	3,107
	Receivables from insurance companies, agents, brokers and intermediaries	5,803	6,348
	Receivables arising from ceded reinsurance	1,092	1,166
	Other receivables	2,621	2,478
	Allowance for impairments ¹	(437)	(457)
	Non-financial instruments		
	Tax receivables	638	621
	Total	13,131	13,263

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

Receivables are generally settled within one year.

16. Mortgage loans given as collateral and collateralized loans

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

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

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

Maturity schedule - collateralized loans	Table 16			
	in USD millions, as of December 31			
	2009		2008	
	Carrying value ¹	Undiscounted cash flow ²	Carrying value ¹	Undiscounted cash flow ²
< 1 year	134	138	125	133
1 to 2 years	546	560	121	129
2 to 3 years	178	182	556	590
3 to 4 years	92	94	181	192
4 to 5 years	78	80	127	135
> 5 years	74	76	123	133
Total	1,102	1,131	1,233	1,313

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

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

17. Property and equipment

Table 17.1

Property and equipment – current period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2009	359	1,398	433	764	735	3,689
Less: accumulated depreciation/impairments	–	(547)	(349)	(547)	(361)	(1,804)
Net carrying value as of January 1, 2009	359	851	84	217	374	1,885
Additions, improvements and transfers	–	38	49	156	161	403
Disposals and transfers	(8)	(58)	(2)	(11)	(100)	(179)
Depreciation and impairments	–	(36)	(25)	(100)	(76)	(237)
Foreign currency translation effects	13	32	3	4	13	66
Net carrying value as of December 31, 2009	364	828	110	265	371	1,939
Plus: accumulated depreciation/impairments	–	422	361	602	422	1,807
Gross carrying value as of December 31, 2009	364	1,249	470	867	794	3,745

Table 17.2

Property and equipment – prior period

in USD millions	Land held for own use	Buildings held for own use	Furniture and fixtures	Computer equipment	Other equipment	Total
Gross carrying value as of January 1, 2008	393	1,577	430	764	615	3,779
Less: accumulated depreciation/impairments	(1)	(571)	(356)	(560)	(324)	(1,811)
Net carrying value as of January 1, 2008	392	1,006	74	204	292	1,968
Additions, improvements and transfers	1	61	35	126	217	442
Disposals and transfers	(31)	(152)	1	(28)	(56)	(265)
Depreciation and impairments	–	(45)	(22)	(86)	(63)	(216)
Foreign currency translation effects	(3)	(20)	(4)	1	(17)	(43)
Net carrying value as of December 31, 2008	359	851	84	217	374	1,885
Plus: accumulated depreciation/impairments	–	547	349	547	361	1,804
Gross carrying value as of December 31, 2008	359	1,398	433	764	735	3,689

The fire insurance value of the Zurich Insurance Group's own-use property and equipment totalled USD 3,470 million and USD 3,659 million as of December 31, 2009 and 2008, respectively.

18. Goodwill and other intangible assets

Table 18.1

in USD millions

Intangible assets –
current period

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
Gross carrying value as of January 1, 2009	1,696	2,617	6,096	1,025	11,434
Less: accumulated amortization/impairments	(20)	(1,364)	(1,753)	–	(3,137)
Net carrying value as of January 1, 2009	1,677	1,252	4,342	1,025	8,297
Additions and transfers	548	(8)	937	–	1,476
Divestments and transfers	–	–	(1)	–	(1)
Amortization	–	(51)	(505)	–	(556)
Amortization charged to shareholders' equity	–	(65)	–	–	(65)
Impairments	(12)	(30)	(45)	–	(88)
Foreign currency translation effects	85	39	145	–	268
Net carrying value as of December 31, 2009	2,297	1,137	4,873 ¹	1,025	9,332
Plus: accumulated amortization/impairments	34	1,612	2,194	–	3,840
Gross carrying value as of December 31, 2009	2,331	2,749	7,067	1,025	13,172

¹ Other intangible assets include software of USD 1,560 million and distribution agreements of USD 3,193 million.

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

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

Impairment charges of USD 88 million were recorded in income comprising impairments on PVFP of USD 30 million in the Spanish Life operations, goodwill impairments of USD 12 million mainly related to the Spanish General Insurance operations and USD 45 million of impairments of other intangible assets primarily related to other intangible assets with definite life in the Italian Life operations.

Table 18.2

in USD millions, as of December 31, 2009

Intangible assets
by segment –
current period

	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney-in-fact relationships	Total
General Insurance	1,029	–	1,419	–	2,448
Global Life	442	1,137	2,864	–	4,443
Farmers	821	–	372	1,025	2,218
Other Operating Businesses	5	–	219	–	223
Net carrying value	2,297	1,137	4,873 ¹	1,025	9,332

¹ Other intangible assets include software of USD 1,560 million and distribution agreements of USD 3,193 million.

Table 18.3					
Intangible assets – prior period	in USD millions				
	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney- in-fact relationships	Total
Gross carrying value as of January 1, 2008	1,560	2,392	2,946	1,025	7,923
Less: accumulated amortization/impairments	(8)	(1,612)	(1,681)	–	(3,301)
Net carrying value as of January 1, 2008	1,553	780	1,265	1,025	4,623
Additions and transfers	337	640	3,648	–	4,624
Divestments and transfers	–	–	(21)	–	(22)
Amortization	–	(56)	(296)	–	(352)
Amortization charged to shareholders' equity	–	50	–	–	50
Impairments	(14)	(64)	(5)	–	(83)
Foreign currency translation effects	(198)	(97)	(248)	–	(543)
Net carrying value as of December 31, 2008	1,677	1,252	4,342 ¹	1,025	8,297
Plus: accumulated amortization/impairments	20	1,364	1,753	–	3,137
Gross carrying value as of December 31, 2008	1,697	2,617	6,096	1,025	11,434

¹ Other intangible assets include software of USD 1,144 million and distribution agreements of 3,052 million.

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

Table 18.4					
Intangible assets by segment – prior period	in USD millions, as of December 31, 2008				
	Goodwill	Present value of profits of acquired insurance contracts	Other intangible assets	Attorney- in-fact relationships	Total
General Insurance	895	–	1,303	–	2,199
Global Life	395	1,252	2,672	–	4,320
Farmers	382	–	182	1,025	1,589
Other Operating Businesses	5	–	185	–	190
Net carrying value	1,677	1,252	4,342 ¹	1,025	8,297

¹ Other intangible assets include software of USD 1,144 million and distribution agreements of 3,052 million.

19. Other assets

Other assets	Table 19.1		
	in USD millions, as of December 31	2009	2008
	Other financial assets:		
	Derivative assets	1,296	1,706
	Other assets	199	133
	Other non-financial assets:		
	Accrued premiums	785	900
	Prepaid expenses	277	313
	Prepaid insurance benefits	369	392
	Other assets	350	630
	Total other assets	3,276	4,075

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

20. Other liabilities

Other liabilities	Table 20.1		
	in USD millions, as of December 31	2009	2008
	Other financial liabilities:		
	Amounts due to reinsurers, agents and other insurance companies	1,997	1,778
	Amounts due to investment brokers	823	790
	Amounts due to life policyholders	561	559
	Liabilities for cash collateral received for securities lending	508	182
	Derivative liabilities	621	1,468
	Liabilities for defined benefit plans	1,891	2,294
	Other liabilities for employee benefit plans	101	105
	Other liabilities	6,556	6,454
	Other non-financial liabilities:		
	Current tax payables	949	988
	Restructuring provisions	119	88
	Premium prepayments and other advances	828	697
	Other liabilities	527	588
	Total other liabilities	15,481	15,992

The table below shows the maturity schedule of other financial liabilities as of December 31, 2009 and 2008, respectively.

Table 20.2				
Maturity schedule – other financial liabilities ¹	in USD millions, as of December 31	2009		2008
		Carrying value ²	Undiscounted cash flow ³	Carrying value ² Undiscounted cash flow ³
< 1 year		9,612	9,619	9,886 9,800
1 to 2 years		173	178	157 148
2 to 3 years		500	507	138 145
3 to 4 years		116	125	430 443
4 to 5 years		47	59	86 112
> 5 years		719	1,682	640 1,604
Total		11,167	12,169	11,337 12,251

¹ Excluding liabilities for defined benefit plans.

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

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

Table 20.3			
Restructuring provisions	in USD millions	2009	2008
As of January 1		88	162
Provisions made during the period		101	141
Provisions used during the period		(86)	(200)
Provisions reversed during the period		(3)	(2)
Foreign currency translation effects		4	(10)
Net changes due to acquisitions/divestments		17	–
Other changes		(1)	(2)
As of December 31		119	88

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

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

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

21. Income taxes

Table 21.1

Income tax expense – current/deferred split	in USD millions, for the years ended December 31		
		2009	2008
	Current	940	658
	Deferred	334	(1,196)
	Total income tax expense/(benefit)	1,274	(538)

Table 21.2

Income tax expense – policyholder/shareholder attribution	in USD millions, for the years ended December 31		
		2009	2008
	Total income tax expense/(benefit) attributable to policyholders	387	(1,184)
	Total income tax expense/(benefit) attributable to shareholders	887	646
	Total income tax expense/(benefit)	1,274	(538)

The Zurich Insurance 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

Expected and actual income tax expense	in USD millions, for the years ended December 31				
	Rate	2009	Rate	2008	
Net income before income taxes		4,328		2,511	
Less: income tax (expense)/benefit attributable to policyholders		(387)		1,184	
Net income before income taxes attributable to shareholders		3,941		3,695	
Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	867	22.0%	813	
Increase/(reduction) in taxes resulting from:					
<i>Tax rate differential in foreign jurisdictions</i>		69		194	
<i>Tax exempt and lower taxed income</i>		(53)		(10)	
<i>Non-deductible expenses</i>		78		87	
<i>Tax losses previously unrecognized or no longer recognized</i>		16		(262)	
<i>Prior year adjustments and other</i>		(90)		(177)	
Actual income tax expense attributable to shareholders	22.5%	887	17.5%	645	
Plus: income tax expense/(benefit) attributable to policyholders		387		(1,184)	
Actual income tax expense/(benefit)	29.4%	1,274	(21.4%)	(538)	

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.

Table 21.4			
Current tax receivables and payables	in USD millions, as of December 31	2009	2008
	Current tax receivables	638	621
	Current tax payables	(949)	(988)
	Net current tax payables	(312)	(367)

Table 21.5			
Deferred tax assets and liabilities	in USD millions, as of December 31	2009	2008
	Deferred tax assets	2,253	2,915
	Deferred tax liabilities	(4,464)	(3,470)
	Net deferred tax liabilities	(2,211)	(556)

Table 21.6			
Development of net deferred tax liabilities	in USD millions	2009	2008
	As of January 1	(556)	(2,354)
	Net change recognized in the income statement	(334)	1,196
	Net change recognized in equity	(1,183)	1,366
	Net changes due to acquisitions/(divestments)	11	(1,029)
	Foreign currency translation effects	(149)	265
	As of December 31	(2,211)	(556)

The cumulative amount of deferred tax credited to shareholders' equity, net of foreign currency translation effects, amounted to USD 521 million and USD 1,704 million for the years ended December 31, 2009 and 2008, respectively.

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

Table 21.7			
Deferred taxes – policyholder/ shareholder attribution	in USD millions, as of December 31	2009	2008
	Net deferred tax assets/(liabilities) attributable to policyholders	(74)	544
	Net deferred tax assets/(liabilities) attributable to shareholders	(2,138)	(1,100)
	Net deferred tax liabilities	(2,211)	(556)

Deferred tax
assets/(liabilities)
analysis
by source

Table 21.8

in USD millions, as of December 31

	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Gross deferred tax				
Deferred acquisition and origination costs	31	(516)	65	(584)
Depreciable and amortizable assets	20	(31)	22	(43)
Life policyholders' benefits and deposits ¹	11	(7)	20	–
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	314	(365)	965	(332)
Accruals & deferred income	197	–	239	–
Reserves for losses and loss adjustment expenses	489	–	569	(46)
Reserves for unearned premiums	706	(158)	744	(253)
Pensions and other employee benefits	376	–	384	–
Other assets/liabilities	770	(54)	672	(30)
Tax loss carryforwards	471	–	691	
Gross deferred tax assets/(liabilities) before valuation allowance	3,386	(1,131)	4,371	(1,289)
Valuation allowance	(2)	–	(167)	–
Gross deferred tax assets/(liabilities) after valuation allowance	3,384	(1,131)	4,204	(1,289)
Deferred tax assets	2,253		2,915	
Deferred acquisition and origination costs	56	(2,762)	22	(2,330)
Depreciable and amortizable assets	101	(2,116)	191	(1,592)
Life policyholders' benefits and deposits ¹	529	(861)	473	(816)
Unrealized (gains)/losses on available-for-sale investments and cash flow hedges	344	(580)	710	(355)
Accruals & deferred income	105	(123)	66	(125)
Reserves for losses and loss adjustment expenses	339	(478)	268	(575)
Reserves for unearned premiums	156	(64)	201	(53)
Deferred front-end fees	747	–	629	–
Pensions and other employee benefits	366	(29)	435	(21)
Other assets/liabilities	930	(1,345)	925	(1,699)
Tax loss carryforwards	244	–	183	–
Gross deferred tax assets/(liabilities) before valuation allowance	3,916	(8,358)	4,102	(7,566)
Valuation allowance	(23)		(6)	
Gross deferred tax assets/(liabilities) after valuation allowance	3,893	(8,358)	4,096	(7,566)
Deferred tax liabilities		(4,464)		(3,470)
Net deferred tax liabilities		(2,211)		(556)

¹ Includes reserves for unit-linked contracts.

As of December 31, 2009 the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized amount to approximately USD 4 billion. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

Tax losses carryforwards and tax credits

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

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22. Debt

Table 22.1

in USD millions, as of		2009	2008
Debt			
Debt related to capital markets			
Zurich Capital Markets	Various debt instruments payable within 1 year	25	2,079
Debt related to capital markets		25	2,079
Senior debt			
Zurich Finance (USA), Inc.	3.50% CHF 300 bond, due November 2011 ^{1,7}	291	283
	4.50% EUR 1,000 bond, due September 2014 ^{2,7}	1,443	1,395
	4.875% EUR 800 bond, due April 2012 ⁷	1,143	–
	6.50% EUR 600 bond, due October 2015 ^{3,7}	857	–
Zurich Finance (Luxembourg) S.A.	3.25% USD 750 bond, due September 2013 ^{1,7}	747	–
Kemper Corporation	Various debt instruments, due within 1 year	–	23
Zurich Insurance Company Ltd	3.875% CHF 1,000 bond, due July 2011	965	938
	3.75% CHF 500 bond, due September 2013 ⁷	478	463
	Various debt instruments payable within 1 year	200	100
	Various debt instruments payable within 1 year with Zurich Financial Services Ltd ⁴	667	1,889
Other	Various debt instruments payable within 1 year	6	6
	Various debt instruments payable in more than 1 year	149	156
Senior debt		6,945	5,253
Subordinated debt			
Zurich Insurance Company Ltd	12.0% EUR 143 capital notes, undated ⁶	203	–
	7.5% EUR 425 bond, due July 2039 ⁶	603	–
	5.41% CHF 4,000 long-term undated loan, with Zurich Financial Services Ltd ⁴	3,860	3,748
Zurich Finance (UK) plc	6.625% GBP 450 bond, undated notes ^{5,7}	717	648
Zurich Finance (USA), Inc.	5.75% EUR 500 bond, due October 2023 ⁷	707	687
	4.5% EUR 500 bond, due June 2025 ^{6,7}	730	691
ZFS Finance (USA) Trust I	Series I 6.15% USD 600 ECAPS, due December 2065	567	569
ZFS Finance (USA) Trust II	Series II 6.45% USD 700 ECAPS, due December 2065	672	672
ZFS Finance (USA) Trust III	Series III Floating Rate USD 400 ECAPS, due December 2065	200	318
ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 Trust Preferred Securities, due May 2062	249	498
ZFS Finance (USA) Trust V	Series V 6.5% USD 1,000 Trust Preferred Securities, due May 2067	496	994
Other	Various debt instruments payable in more than 1 year	22	21
Subordinated debt		9,026	8,845
Total senior and subordinated debt		15,971	14,098
Total debt		15,996	16,177

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 Loans with subsidiaries of Zurich Financial Services Group which are not part of Zurich Insurance Group.

⁵ 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, Zurich Insurance Group will issue a replacement debt instrument with terms and provisions that are as or more equity-like than the replaced notes.

⁶ This bond is part of a qualifying fair value hedge.

⁷ Issued under Zurich Insurance Group's Euro Medium Term Note Programme (EMTN Programme).

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

a) Debt related to capital markets

Debt related to capital markets decreased from USD 2,079 million as of December 31, 2008 to USD 25 million as of December 31, 2009, largely due to Zurich Capital Markets' commercial paper repayments. A significant portion of the commercial paper repayments was financed by the issue of longer term senior debt, which better matches the duration of the assets.

Senior and subordinated debt

To facilitate the issuance of debt, the Zurich Insurance 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. Zurich Insurance Group has also issued debt instruments outside this programme when deemed appropriate.

b) Senior debt

Senior debt increased from USD 5.3 billion to USD 6.9 billion during the year, mainly as a result of issuances under the EMTN Programme. The Senior debt issued on September 30, 2009, was used to meet operational debt requirement of capital markets, partially through the repayment of existing operational debt.

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

On September 30, 2009 Zurich Finance (Luxembourg) S.A. issued USD 750 million of senior debt under its EMTN Programme. These bonds carry a fixed annual coupon of 3.25% and mature in September 2013. In addition, Zurich Insurance Company Ltd through the merger of Zurich Group Holding into Zurich Financial Services Ltd has reduced its loan positions with Zurich Financial Services Ltd from USD 1.9 billion to USD 0.7 billion.

c) Subordinated debt

Subordinated debt increased slightly from USD 8.8 billion as of December 31, 2008 to USD 9.0 billion as of December 31, 2009, due to issuances of approximately USD 806 million under the EMTN programme and foreign currency revaluation of GBP and EUR bonds, partially offset by the repurchase of USD 866 million subordinated debt.

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

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

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

On March 31, 2009, Zurich Holding Company of America (ZHCA), a subsidiary of the Zurich Insurance Group, repurchased USD 9 million Enhanced Capital Advantage Preferred Securities (ECAPS) and 85 million Trust Preferred Securities.

On May 20, 2009 ZHCA repurchased USD 50 million of ECAPS. These repurchases resulted in a total pre-tax gain of USD 74 million.

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

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

Table 22.2

Description and features of significant subordinated debt	in USD millions	Coupon conditions	Call/redemption date	Redemption conditions ³
	Description			
	5.41 % CHF 4,000 undated loan	5.41 % payable annually	Annually on or after December 19, 2018 (subject to prior written approval by the FINMA)	In case of a defined solvency event, the loan may be converted into newly to be issued ordinary shares of ZIC
	12.00% EUR 143 bond, undated notes	12.00% payable annually up to July 15, 2014 and then reset quarterly to 3-month EURIBOR plus 10.33%.	Quarterly on or after July 15, 2014	Redeemable in whole at par plus any accrued interest.
	7.5% EUR 425 bond, due July 2039	7.5% payable annually up to July 24, 2019 and then reset quarterly to 3-month EURIBOR plus 5.85%.	Quarterly on or after July 24, 2019	Redeemable in whole or in part at par plus any accrued interest.
	6.625% GBP 450 bond, undated notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest. ¹	Every five years on or after October 2, 2022	Redeemable in whole every five years at par plus any accrued interest.
	5.75% EUR 500 bond, due October 2023	5.75% payable annually up to October 2, 2013 and then reset quarterly to 3-month EURIBOR plus 2.67%.	Quarterly on or after October 2, 2013	Redeemable in whole at par plus any accrued interest.
	4.5% EUR 500 bond, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015	Redeemable in whole at par plus any accrued interest.
	Series I 6.15% Fixed/Adjustable Rate USD 600 ECAPS, due December 2065	6.15% payable semi-annually until December 15, 2010 and then reset quarterly to the adjustable rate plus 1.75%. ²	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accrued interest.
	Series II 6.45% Fixed/Adjustable Rate USD 700 ECAPS, due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%. ²	Quarterly on or after June 15, 2016	Redeemable in whole or in part at par plus any accrued interest.
	Series III Floating Rate USD 400 ECAPS, due December 2065	3-month LIBOR plus 1.15% reset quarterly until December 15, 2010 and then 3-month LIBOR plus 2.15%.	Quarterly on or after December 15, 2010	Redeemable in whole or in part at par plus any accrued interest.
	Series IV 5.875% USD 500 Fixed/Floating Trust Preferred Securities, due May 2062	5.875% payable semi-annually until May 9, 2012 and then reset quarterly to 3-month LIBOR plus 1.815%.	Quarterly on or after May 9, 2012	Redeemable in whole or in part at par plus any accrued interest.
	Series V 6.5% USD 1,000 Fixed/Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017	Redeemable in whole or in part at par plus any accrued interest.

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

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

³ All subordinated debt instruments are also subject to mandatory redemption as a result of various tax, default or other events.

Maturity schedule of outstanding debt

Table 22.3

in USD millions, as of December 31

	2009		2008	
	Carrying value	Undiscounted cash flow	Carrying value	Undiscounted cash flow
< 1 year	898	1,707	4,097	4,781
1 to 2 years	1,272	2,081	11	649
2 to 3 years	1,143	1,929	1,237	1,862
3 to 4 years	1,235	1,940	12	595
4 to 5 years	1,448	2,099	463	1,038
5 to 10 years	975	3,500	1,513	3,871
> 10 years	9,026	13,213	8,844	12,899
Total	15,996	26,469	16,177	25,695

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

Table 22.4

in USD millions, for the years ended December 31

	2009	2008
Debt related to capital markets	44	70
Senior debt	218	190
Subordinated debt	505	517
Total	767	777

Interest expense on debt

Interest expense on debt

Interest expense on debt decreased slightly from USD 777 million in 2008 to USD 767 million in 2009, primarily as a result of lower interest rates and foreign exchange fluctuations.

Credit facilities

The Zurich Insurance Group has access to a syndicated revolving credit facility of USD 3 billion that terminates in 2012. Zurich Financial Services Ltd through the absorption of Zurich Group Holding into Zurich Financial Services Ltd together with Zurich Insurance Company Ltd and Farmers Group, Inc. are guarantors of the facility and can draw up to USD 1.25 billion, USD 1.5 billion and USD 250 million, respectively.

No borrowings were outstanding under this facility as of December 31, 2009 and December 31, 2008.

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

As of December 31, 2009 and December 31, 2008, USD 200 million and USD 100 million, respectively, were drawn under this credit facility.

Financial debt

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

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

Table 22.5

Financial debt

in USD millions, as of December 31

	2009	2009	2009	2008
	Reported	Adjustments	Financial Debt	Financial Debt
Debt related to capital markets	25	–	25	1,379
Senior debt	6,945	1,047	5,898	5,053
Subordinated debt	9,026	–	9,026	8,845
Total	15,996	1,047	14,949	15,277

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

23. Shareholders' equity

Table 23

Share capital	Table 23		
	number of shares, as of December 31	2009	2008
	Contingent and issued share capital, CHF 10 par value	86,000,000	86,000,000
	Issued share capital, CHF 10 par value	82,500,000	82,500,000
	Issued profit sharing certificates (Genusscheine) ¹	2	2

¹ These profit sharing certificates confer on their holder the right to receive a dividend if and to the extent the General Meeting decides. However, they do not confer on their holder any voting rights or rights associated thereto, any rights to subscribe for new shares, or any rights to liquidation proceeds.

a) Issued share capital

As of December 31, 2009 and 2008, Zurich Insurance Company Ltd had an issued share capital of CHF 825,000,000, consisting of 82,500,000 issued and fully paid registered shares of CHF 10 par value each.

b) Contingent share capital

At the General Meeting of Shareholders on June 11, 1997, a contingent capital of CHF 35,000,000, or 3,500,000 shares with a par value of CHF 10 each, was created, of which 2,500,000 shares can be issued in connection with the granting of conversion and/or option rights and 1,000,000 shares can be issued for the purpose of employees' share ownership plans. None of the contingent shares have been issued as of December 31, 2009.

c) Profit sharing certificates

As of December 31, 2009 and 2008, Zurich Insurance Company Ltd had two profit sharing certificates with no par value issued.

d) Additional paid-in capital

On April 25, 2008, Zurich Insurance Company Ltd entered into a subordinated loan agreement for an amount of CHF 6.1 billion (USD 6.0 billion) with Zurich Group Holding in order to finance its purchase of Farmers Group Inc. Following the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009, the loan has been assumed by Zurich Financial Services Ltd. The loan is undated and pays interest subject to solvency thresholds and is optional if Zurich Insurance Company Ltd does not declare or pay any dividends or other profit distributions to its shareholders. The loan is classified as an equity instrument under IFRS as it meets the classification criteria as such under IAS 32.

e) Shareholders

As of December 31, 2009, following the merger of Zurich Group Holding into Zurich Financial Services Ltd, 100 percent of the registered shares of Zurich Insurance Company Ltd were owned by Zurich Financial Services Ltd. As of December 31, 2008, 99.94 percent of registered shares were owned by Zurich Group Holding. The remaining 0.06 percent of registered shares were owned by Zurich Financial Services Ltd.

24. Employee benefits

Personnel and other related costs incurred for the year ended December 31, 2009 and 2008, were USD 5,146 million and USD 5,367 million, including wages and salaries of USD 4,181 million and USD 4,441 million, respectively. The reduction of wages and salaries of USD 260 million represents a reduction of USD 132 million on a local currency basis.

The Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group's pension and post-employment benefit plans, the Zurich Insurance Group Pension Committee provides oversight of the Zurich Insurance Group's benefits policy.

a) Defined benefit plans

Defined benefit pension plans

Employees of the Zurich Insurance Group's companies are covered by various pension plans, the largest of which are in the UK, U.S., Germany and Switzerland. Certain companies provide defined benefit plans, some of which provide benefits related to employees' service periods and final pensionable earnings. Others provide cash balance plans where the participants receive the benefit of the accumulated employer and employee 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 Zurich Insurance Group's defined benefit pension plans are funded through contributions by the Zurich Insurance Group, and in some cases the employee, to trusts or foundations independent of the Zurich Insurance 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 Zurich Insurance Group's balance sheet.

For the defined benefit pension plans, total contributions to funded pension plans and benefit payments by the Zurich Insurance Group are currently estimated at USD 456 million for 2010 compared with USD 451 million estimated in the previous year for 2009. The actual amount may differ.

Other defined post-employment benefits

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

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

Table 24.1

Status of funded defined benefit plans

in USD millions, as of December 31

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

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

Table 24.2

Status of unfunded defined benefit plans

in USD millions, as of December 31

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

Table 24.3

Status of funded and unfunded defined benefit plans

in USD millions, as of December 31

	Defined benefit pension plans				Other defined post-employment benefits			
	2009	2008	2007	2006	2009	2008	2007	2006
Liability	(1,588)	(2,017)	(637)	(2,101)	(303)	(277)	(271)	(256)

Table 24.4

Expense recognized in income

in USD millions, as of December 31

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

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

Table 24.5

Fair value of assets held in funded defined benefit plans

in USD millions, as of December 31

	Defined benefit pension plans		Other defined post-employment benefits	
	2009	2008	2009	2008
Mortgage loans	396	409	–	–
Cash and cash equivalents	181	130	–	–
Equity securities	3,598	2,847	–	–
Debt securities	7,740	6,816	–	–
Real estate	701	671	–	–
Other assets ¹	6	6	–	–

Total	12,622	10,879	–	–
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¹ UK annuity policies.

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

Table 24.6

**Movement in
funded and
unfunded
defined benefit
plan obligation**

in USD millions

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

Table 24.7

**Movement in
fair value of
plan assets –
funded plans**

in USD millions

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

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

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

Movement in liability for funded and unfunded plans	Table 24.8 in USD millions	Defined benefit pension plans		Other defined post-employment benefits	
		2009	2008	2009	2008
Liability as of January 1		(2,017)	(637)	(277)	(271)
Current year expense		(369)	(300)	(14)	(19)
Contributions paid		528	533	13	7
Change in liability due to asset ceiling		(7)	51	–	–
Actuarial gain/(loss) passed through other comprehensive income		329	(1,805)	(7)	3
Effects of business combinations and other transfers		(1)	(6)	2	(9)
Foreign currency translation effects		(51)	148	(21)	11
Liability as of December 31		(1,588)	(2,017)	(303)	(277)

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

Actuarial gain/(loss)	Table 24.9 in USD millions	2009	2008	2007	2006
Actuarial gain/(loss) as of January 1		(2,907)	(1,308)	(1,870)	(2,420)
Experience adjustments on plan liabilities		(37)	(147)	(118)	(375)
Experience adjustments on plan assets		318	(1,485)	188	447
Changes due to discount rate assumptions		(103)	223	975	–
Changes due to other actuarial assumptions		144	(392)	(345)	528
Asset ceiling recognition		(7)	51	(64)	–
Foreign currency translation effects		(80)	152	(75)	(50)
Total actuarial gain/(loss) as of December 31		(2,672)	(2,907)	(1,308)	(1,870)
Total actuarial gain/(loss) net of policyholder participation and taxes as of December 31		(1,762)	(1,934)	(818)	(1,286)

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

Assumptions used in determining the actuarial liabilities for major defined benefit pension plans	Table 24.10 as of December 31	2009				2008			
		Switzer-land	United Kingdom	United States	Germany	Switzer-land	United Kingdom	United States	Germany
Discount rate		3.1%	5.9%	5.8%	5.4%	2.9%	5.9%	6.1%	5.7%
Inflation rate		1.5%	3.1%	2.4%	1.7%	1.6%	3.0%	2.1%	1.8%
Expected long-term rate of return on assets		4.1%	6.6%	7.0%	5.1%	4.1%	5.9%	6.8%	5.0%
Expected future salary increases		2.1%	4.3%	3.9%	2.7%	2.2%	4.3%	4.4%	3.1%
Expected future pension increases		1.0%	3.1%	0.3%	1.7%	1.1%	3.2%	0.3%	1.8%
Current average life expectancy for a 65 year old male		19.8	22.3	19.4	18.1	19.8	22.2	19.3	18.0

The expected long-term rate of return on assets is derived separately for each of the Zurich Insurance 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.

Table 24.11

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

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

The actuarial assumptions of healthcare cost trend rates have an impact on the amounts recognized. A one percentage point change in the health care cost trend rates would have the effects on amounts recognized in 2009 as set out in table 24.12.

Table 24.12

Effect of a change in health care cost trends on other defined post-employment benefits	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 Zurich Insurance 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 Zurich Insurance Group's contributions under these plans amounted to USD 47 million and USD 52 million in 2009 and 2008, respectively.

25. Share-based compensation and cash incentive plans

The Zurich Insurance 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 Zurich Insurance 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 shares of Zurich Financial Services Ltd, the ultimate parent which is not part of the Zurich Insurance Group.

a) Cash incentive plans

Various businesses throughout the Zurich Insurance Group operate short-term incentive programs for executives, management and, in some cases, for employees of that business unit. Awards are made in cash, based on the accomplishment of both organizational and individual performance objectives. The expenses recognized for these cash incentive plans amounted to USD 354 million and USD 285 million for the years ended December 31, 2009 and 2008, respectively.

b) Share-based compensation plans for employees and executives

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

Table 25.1

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

The explanations below give a more detailed overview of the plans of the Zurich Insurance Group.

Employee share plans

Share Incentive Plan for employees in the UK

The Zurich Insurance Group established an Inland Revenue approved Share Incentive Plan and launched the partnership shares element of this plan in 2003, which enabled participating employees to make monthly purchases of Zurich Financial Services Ltd shares at the prevailing market price out of their gross earnings. There were 374 and 420 participants in the plan as of December 31, 2009 and 2008, respectively. The Zurich Insurance Group also operates the profit-sharing element of the Share Incentive Plan (reward shares) which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on the participating employee's business unit's Business Operating Profit (BOP) after tax for the year, subject to a maximum individual award of 5 percent of participant's base salary (before any flexible benefit adjustments) or GBP 3,000. The total number of participating employees in the reward share element of the plans as of December 31, 2009 and 2008 was 5,569 and 6,269 respectively.

Share Incentive Plans for employees in Switzerland

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

Share-based compensation plans for executives

The Zurich Insurance 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 Zurich Insurance Group can also make restricted share grants to selected employees, which provide share awards if the individual remains employed with the Zurich Insurance 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 Zurich Financial Services Ltd during the previous calendar year. For 2009 and future grants we are looking back to a three year performance period. The current performance metrics are Zurich Financial Services Ltd's return on equity (ROE) and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. One half of the shares that actually vest are sales-restricted for a further period of three years. The options have a seven year term from the date of grant. Grants under the plan are made annually each April. The actual number of performance shares and performance options granted is determined such that the economic value is a defined percentage of annual salary in the year of allocation. There were a total of 175 and 170 participants in this plan as of December 31, 2009 and 2008, respectively.

Executive long-term performance share plans

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

c) Further information on performance share and option plans

Table 25.2

Movements in options granted under the various equity participation plans

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

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

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

Table 25.3

Share options exercised during the period

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

Table 25.4

Range of exercise prices of options outstanding

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

Options and shares granted during the period

Table 25.5

for the years ended December 31

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

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

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

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

Table 25.6

Black-Scholes assumptions for fair value of options

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

¹ Share price as at date of grant.

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

26. Contingent liabilities, contractual commitments and financial guarantees

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

Table 26.1			
Quantifiable commitments and contingencies	in USD millions, as of December 31	2009	2008
	Commitments under investment agreements	4,165	4,205
	Less funded commitments	(3,386)	(3,423)
	Remaining commitments under investment agreements	779	782
	Guarantees, surety bonds, letters of credit ¹	3,915	3,959
	Future rent commitments	1,136	1,241
	Undrawn loan commitments (capital markets)	95	85
	Other commitments and contingent liabilities	84	47

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

Contractual commitments under investment agreements

The Zurich Insurance 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 Zurich Insurance Group on a timely basis.

Guarantees and letters of credit

The Zurich Insurance 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 Zurich Insurance Group has entered into various operating leases as lessee for office space and certain computer and other equipment. Lease expenses totaled USD 197 million and USD 195 million for the years ended December 31, 2009 and 2008, respectively.

Table 26.2			
Future payments under non-cancellable operating leases with terms in excess of one year	in USD millions, as of December 31	2009	2008
	< 1 year	224	226
	1 to 2 years	198	205
	2 to 3 years	153	174
	3 to 4 years	124	131
	4 to 5 years	130	109
	> 5 years	306	396
	Total	1,136	1,241

Indemnity agreements

The Zurich Insurance Group, through certain of its subsidiaries, has agreed to arrangements that cap Converium's (now Scor Holding (Switzerland) AG) and its successor companies' net exposure for losses arising out of the September 11, 2001 event at USD 289 million. As of December 31, 2009, and 2008 respectively, the Zurich Insurance Group has recorded in this respect provisions of USD 44 million and USD 54 million.

Pledged assets

The majority of assets pledged to secure the Zurich Insurance Group's liabilities relates to debt securities pledged under short-term sale and repurchase agreements. The total amount of pledged financial assets including the securities under short-term sale and repurchase agreements amounted to USD 9,288 million and USD 6,564 million as of December 31, 2009 and 2008, respectively.

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

Other contingent liabilities

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

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

In common with other groups writing life assurance business in the UK, the Zurich Insurance 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 Zurich Insurance Group completed the divestment of various asset management operations. As part of these agreements, the Zurich Insurance 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 Zurich Insurance Group may be required to compensate for these shortfalls.

Litigation and regulatory investigations

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

In 2006, certain Zurich Insurance Group subsidiaries 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, certain Zurich Insurance Group subsidiaries and Zurich Financial Services (now Zurich Financial Services Ltd) 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.

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

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

27. Fair value of financial assets and financial liabilities

The following table compares the fair value of financial assets and financial liabilities with their carrying value.

Table 27.1a

in USD millions, as of December 31

	Fair value		Carrying value	
	2009	2008	2009	2008
Cash and cash equivalents	13,540	14,016	13,540	14,016
Available-for-sale securities				
Debt securities	124,073	105,752	124,073	105,752
Equity securities	7,745	9,313	7,745	9,313
Total available-for-sale securities	131,819	115,065	131,819	115,065
Securities at FV through profit or loss				
Trading				
Debt securities	82	186	82	186
Equity securities	635	895	635	895
Designated at FV				
Debt securities	6,761	7,105	6,761	7,105
Equity securities	4,138	3,577	4,138	3,577
Total securities at FV through profit or loss	11,616	11,763	11,616	11,763
Derivative assets	1,198	1,611	1,198	1,611
Held-to-maturity debt securities	5,408	5,482	5,143	5,244
Loans and receivables				
Mortgage loans	10,783	11,007	10,472	10,715
Other loans	16,095	15,760	15,335	15,069
Deposits made under assumed reinsurance contracts	3,854	2,391	3,861	2,397
Mortgage loans given as collateral	1,130	1,313	1,102	1,233
Receivables	12,427	12,539	12,494	12,642
Other financial assets	8	14	8	14
Total loans and receivables	44,298	43,023	43,273	42,070
Total	207,879	190,960	206,589	189,769
Financial liabilities at FV through profit or loss				
Trading				
Obligation to repurchase securities	(3,976)	(3,608)	(3,976)	(3,608)
Derivative liabilities	(621)	(1,468)	(621)	(1,468)
Financial liabilities held at amortized cost				
Liabilities related to investment contracts	(254)	(122)	(254)	(122)
Liabilities related to investment contracts with DPF	(5,306)	(5,314)	(5,728)	(5,461)
Debt	(5,274)	(3,187)	(15,996)	(16,176)
Deposits received under ceded reinsurance contracts	(1,446)	(1,537)	(1,558)	(1,619)
Collateralized loans	(1,131)	(1,313)	(1,102)	(1,233)
Other financial liabilities	(2,209)	(1,664)	(2,215)	(1,670)
Total	(20,217)	(18,213)	(31,449)	(31,357)

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

Table 27.1b

in USD millions, as of December 31

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

The methods and assumptions used by the Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance 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 Zurich Insurance Group to determine their fair value. The Zurich Insurance Group has also classified under Level 2 liabilities related to unit-linked investment contracts and obligations to repurchase securities.

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

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

Fair Value Hierarchy	Table 27.2				
	in USD millions, as of December 31, 2009	Level 1	Level 2	Level 3	Total
Available-for-sale securities					
Debt securities		45,015	76,081	2,977	124,073
Equity securities		4,252	2,528	965	7,745
Total available-for-sale securities		49,267	78,610	3,942	131,819
Securities at FV through profit or loss					
Trading					
Debt securities		73	8	–	82
Equity securities		–	35	600	635
Designated at FV					
Debt securities		2,511	4,030	220	6,761
Equity securities		901	933	2,305	4,138
Total securities at FV through profit or loss		3,486	5,006	3,125	11,616
Derivative assets		–	1,159	39	1,198
Total		52,752	84,774	7,106	144,633
Financial liabilities at FV through profit or loss					
Trading					
Obligation to repurchase securities		–	(3,976)	–	(3,976)
Derivative liabilities		–	(584)	(37)	(621)
Total		–	(4,560)	(37)	(4,597)

Table 27.3								
Roll forward analysis for financial instruments classified under Level 3	in USD millions	Available-for-sale securities		Securities at FV through profit or loss			Derivative assets	Derivative liabilities
				Trading	Designated at FV			
		Debt securities	Equity securities	Equity securities	Debt securities	Equity securities		
As of January 1, 2009	3,122	1,118	753	201	2,350	89	(23)	
Realized gains/(losses) recognized in income ¹	(43)	1	(8)	1	42	–	(5)	
Unrealized gains/(losses) recognized in income ¹	(303)	(134)	64	13	150	(50)	(14)	
Unrealized gains/(losses) recognized in shareholders’ equity	511	(183)	–	–	–	–	–	
Purchases	137	164	159	2	589	–	–	
Sales/Redemptions/Settlements	(786)	(23)	(373)	(10)	(855)	–	5	
Net transfers into Level 3	315	2	–	10	–	–	–	
Foreign currency translation effects	24	21	5	4	28	1	–	
As of December 31, 2009	2,977	965	600	220	2,305	39	(37)	

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

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

The Zurich Insurance Group has classified under Level 3 a total amount of USD 3.2 billion of asset-backed securities (ABSs) held as Zurich Insurance Group investments. These ABSs include non-agency backed securities for which the limited market activity observed at year end required our pricing providers to make certain internal valuation assumptions. To determine the fair value of these investments, pricing providers use valuation models that are based on an expected present value technique.

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

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

Table 27.4

Sensitivity analysis of Level 3 ABSs to changes in key assumptions

as of December 31, 2009

	Less 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

The Zurich Insurance Group has also classified under Level 3 a total amount of USD 3.1 billion of investments in hedge funds and private equity funds that are valued based on regular reports from the issuing funds. Fair values of such investments are reviewed by a team of in-house investment professionals and may be adjusted based on their understanding of the circumstances of individual investments. Investments in hedge funds and private equity funds have not been included in the sensitivity analysis due to the large number of valuation assumptions that while, in total, have a significant effect on the fair value of these investments, when considered individually, the impact of changing them to reasonably possible alternative values would not be significant.

Unit-linked financial instruments

Fair Value Hierarchy	Table 27.5				
	in USD millions, as of December 31, 2009	Level 1	Level 2	Level 3	Total
	Investments at FV through profit or loss				
	Designated at FV				
	Debt securities	4,189	5,875	130	10,194
	Equity securities	47,895	25,837	4,579	78,311
	Other loans	–	924	–	924
	Total investments at FV through profit or loss	52,084	32,636	4,709	89,429
	Derivative assets	–	98	–	98
	Total	52,084	32,734	4,709	89,527
	Financial liabilities at FV through profit or loss				
	Designated at FV				
	Liabilities related to unit-linked investment contracts	–	(40,143)	–	(40,143)

Roll forward analysis for financial assets classified under Level 3	Table 27.6		
	in USD millions	Securities at FV through profit or loss	
		Designated at FV	
		Debt securities	Equity securities
	As of January 1, 2009	138	4,554
	Realized gains/(losses) recognized in income ¹	6	18
	Unrealized gains/(losses) recognized in income ¹	1	48
	Purchases	12	100
	Sales/Redemptions	(32)	(145)
	Foreign currency translation effects	4	4
	As of December 31, 2009	130	4,579

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

28. Related party transactions

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

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

Related party transactions included in the Consolidated Financial Statements	Table 28.1		
	in USD millions	2009	2008
	Consolidated income statements for the years ended December 31		
	Net earned premiums and policy fees	10	10
	Net investment income on Group investments	97	147
	Net cap gains/(losses) and impairments on Group investments	(304)	18
	Other income/(expense)	26	23
	Administrative and other operating expense	(6)	(82)
	Insurance benefits and losses, net of reinsurance	(11)	(8)
	Interest expense on debt	(212)	(266)
	Consolidated balance sheets as of December 31		
	Total Group investments	4,698	5,332
	Total unit-linked investments	2,349	818
	Accrued investment income	14	20
	Receivables	45	59
	Other assets	9	3
	Reserves for insurance contracts	(18)	(13)
	Accrued liabilities	(5)	(96)
	Other liabilities	(9)	(355)
	Debt	(4,528)	(5,643)

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

Related party transactions – key personnel	Table 28.2		
	in USD millions, for the years ended December 31	2009	2008
	Remuneration of key personnel of the Group		
	Cash compensation, current benefits and fees	29	39
	Post-employment benefits	4	4
	Share-based compensation	31	34
	Total remuneration of key personnel	64	77

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

members of the Board of Directors of Zurich Financial Services Ltd and Zurich Insurance Company Ltd, which were USD 3 million, for the years ended December 31, 2009 and 2008.

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

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

29. Farmers Exchanges

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

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

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

Table 29

Surplus Notes

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

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

b) Quota share reinsurance treaties with the Farmers Exchanges

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

Auto Physical Damage Quota Share Agreement

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

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

- Effective January 1, 2006, the Farmers Exchanges modified the terms of the APD agreement with Farmers Re and ZIC. The new APD agreement provides for annual ceded premiums of USD 1 billion of gross written premiums with 20.0 percent assumed by Farmers Re and 80.0 percent assumed by ZIC, a 25.8 percent ceding commission for acquisition expenses, and an 8.2 percent ceding commission for unallocated loss adjustment expense. The APD agreement also includes provisions for additional experience commissions that will depend on loss experience and recoveries below a specified ratio for each year. This experience commission arrangement limits Farmers Re and ZIC's potential underwriting gain on the assumed business to 2.0 percent of premiums assumed plus 20.0 percent of the underwriting gain resulting from a combined ratio under 98.0 percent. The APD agreement, which can be cancelled after 90 days notice by any of the parties, was renewed with the same terms on January 1, 2009 and has a termination date of December 31, 2011.

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

All Lines Quota Share Reinsurance Agreement

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

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

- Effective December 31, 2004, the 10.0 percent All Lines agreement was amended and the quota share participation was increased by 2.0 percent to 12.0 percent;
- Effective December 31, 2005, the quota share participation was decreased from 12.0 percent to 6.0 percent;
- Effective December 31, 2007, the quota share participation was further reduced by 1.0 percent to 5.0 percent. In addition, under this treaty the Farmers Property and Casualty (P&C) Companies' catastrophe losses were changed from USD 800 million to a maximum of USD 1 billion;
- Effective September 30, 2008, the quota share was modified and the participation was increased from 5.0 percent to 25.0 percent. In addition to this change, the ceding commission for acquisition expenses was increased from 22.0 percent to 25.0 percent;
- Effective June 30, 2009, the All Lines agreement was cancelled subsequent to which Farmers Re and ZIC entered into a new 37.5 percent All Lines agreement under which each assumes a percentage of all lines of business written by the Farmers P&C Companies, prospectively. Under the All Lines agreement, which amended the 25.0 percent All Lines agreement in effect since September 30, 2008, Farmers Re and ZIC assume a 7.5 percent and 30.0 percent respective quota share of the premiums written and the ultimate net losses sustained in all lines of business written by the Farmers P&C Companies after the APD agreement has been applied. In addition, under the All Lines agreement, the Farmers P&C Companies catastrophe losses are subject to a maximum of USD 1 billion. As a result, Farmers Re and ZIC are subject to a maximum annual catastrophe loss of USD 75 million and USD 300 million, respectively. The All Lines agreement, which can be terminated after 90 days notice by any of the parties,

also provides for the Farmers P&C Companies to receive a provisional ceding commission of 25.0 percent of premiums for acquisition expenses, 8.8 percent of premiums for unallocated loss adjustment expense and 5.3 percent of premiums for other expenses. Unearned premiums totaling USD 970 million were transferred from the Farmers P&C Companies to Farmers Re and ZIC as a result of their increased participation in the All Lines agreement through September 30, 2009. In addition, Farmers Re and ZIC remitted USD 242 million of reinsurance commissions to the Farmers P&C Companies for acquisition expenses due to the increased participation in the All Lines agreement.

- Effective December 31, 2009, the All Lines quota share reinsurance agreement was modified and the participation ratio was decreased by 2.5 percent to 35 percent. In addition to this 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.

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

c) North America Commercial Small Business Solutions (SBS)

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

30. Segment information

The Zurich Insurance Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both businesses and geography. The Zurich Insurance Group's operating segments have been identified on the basis of the businesses operated by the Zurich Insurance Group and how these are strategically managed to offer different products and services to specific customer groups. Segment information is presented accordingly. Zurich Insurance 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 customer-focused strategy with market-leading propositions in unit-linked and protection products through global distribution and proposition pillars to develop leadership positions in its chosen segments.

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

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

Other Operating Businesses predominantly consist of the Zurich Insurance Group's Headquarters 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 Zurich Insurance Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off.

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

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

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

Americas

Europe & Africa

Asia-Pacific & Middle East

Central Region

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

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

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

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



Business operating
profit by business
segment

Table 30.1

in USD millions, for the years ended December 31

	General Insurance		Global Life	
	2009	2008	2009	2008
Revenues				
Direct written premiums and policy fees ¹	32,516	35,357	12,343	10,694
Assumed written premiums	1,641	1,794	97	100
Gross written premiums and policy fees	34,157	37,151	12,440	10,794
Less premiums ceded to reinsurers	(5,222)	(5,646)	(769)	(741)
Net written premiums and policy fees	28,935	31,505	11,672	10,053
Net change in reserves for unearned premiums	136	(583)	6	–
Net earned premiums and policy fees	29,071	30,922	11,677	10,053
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	3,191	3,637	4,032	3,688
Net investment income on Group investments	3,080	3,725	4,081	4,518
Net capital gains/(losses) and impairments on Group investments	110	(88)	(49)	(829)
Net investment result on unit-linked investments	–	–	11,697	(19,039)
Other income	852	736	854	1,195
Total BOP revenues	33,113	35,294	28,261	(4,102)
<i>of which: inter-segment revenues</i>	<i>(383)</i>	<i>(516)</i>	<i>(293)</i>	<i>(201)</i>
Benefits, losses and expenses				
Insurance benefits and losses, net	20,622	22,441	10,594	9,229
Losses and loss adjustment expenses, net	20,590	22,388	53	29
Life insurance death and other benefits, net	40	53	10,577	9,888
(Decrease)/increase in future life policyholders' benefits, net ¹	(8)	–	(36)	(688)
Policyholder dividends and participation in profits, net	15	16	12,018	(18,942)
Income tax expense/(benefit) attributable to policyholders	–	–	387	(1,184)
Underwriting and policy acquisition costs, net	5,375	5,679	1,116	1,887
Administrative and other operating expense (excl. depreciation/amortization)	3,303	3,190	1,857	2,137
Interest credited to policyholders and other interest	32	195	444	521
Restructuring provisions and other items not included in BOP	(170)	(246)	(119)	423
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	29,177	31,277	26,296	(5,930)
Business operating profit (before interest, depreciation and amortization)	3,937	4,017	1,965	1,827
Depreciation and impairments of property and equipment	80	77	34	42
Amortization and impairments of intangible assets	177	133	346	224
Interest expense on debt	209	235	93	45
Business operating profit before non-controlling interests	3,470	3,573	1,492	1,517
Non-controlling interests	(3)	24	35	38
Business operating profit	3,474	3,549	1,457	1,479
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets	474	1,614	407	3,127

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

Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total		
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	
–	–	–	(6)	566	469	(11)	19	45,414	46,532	
6,615	3,381	142	182	134	184	(226)	(279)	8,403	5,362	
6,615	3,381	142	176	700	652	(237)	(260)	53,817	51,894	
–	–	(52)	(61)	(39)	(39)	237	260	(5,844)	(6,226)	
6,615	3,381	90	115	661	613	–	–	47,973	45,667	
(893)	(1,002)	–	–	5	25	–	–	(746)	(1,560)	
5,722	2,378	90	116	666	638	–	–	47,227	44,107	
2,690	2,458	–	–	–	–	–	–	2,690	2,458	
174	160	485	657	414	365	(831)	(949)	7,466	7,557	
174	160	485	582	452	560	(831)	(949)	7,443	8,595	
–	–	–	75	(38)	(195)	–	–	23	(1,037)	
–	–	–	–	778	(2,692)	–	–	12,475	(21,731)	
85	21	1,106	1,051	183	12	(1,259)	(1,305)	1,822	1,710	
8,672	5,018	1,682	1,824	2,042	(1,677)	(2,089)	(2,255)	71,682	34,102	
(58)	(65)	(1,279)	(1,359)	(77)	(114)	2,089	2,255	–	–	
3,904	1,622	86	175	1,055	1,344	–	–	36,261	34,811	
3,904	1,622	5	1	49	106	38	–	24,639	24,145	
–	–	82	101	656	495	1	–	11,356	10,538	
–	–	–	73	350	743	(39)	1	266	128	
–	–	–	–	826	(2,588)	–	–	12,859	(21,514)	
–	–	–	–	–	–	–	–	387	(1,184)	
1,760	696	12	14	9	14	(18)	(3)	8,254	8,287	
1,311	1,210	914	1,048	93	(204)	(1,197)	(1,267)	6,281	6,114	
–	–	1	9	52	45	(4)	(24)	525	746	
(34)	2	110	99	6	58	–	–	(208)	336	
6,941	3,531	1,124	1,345	2,040	(1,332)	(1,219)	(1,295)	64,359	27,596	
1,731	1,487	558	479	2	(345)	(870)	(960)	7,323	6,506	
86	63	35	33	3	2	–	–	237	216	
82	59	38	18	–	–	–	–	644	434	
8	9	1,219	1,324	107	124	(870)	(960)	767	777	
1,554	1,356	(734)	(896)	(108)	(471)	–	–	5,675	5,079	
63	56	3	5	1	–	–	–	97	124	
1,491	1,300	(737)	(901)	(108)	(471)	–	–	5,577	4,955	
917	171	81	151	1	2	–	–	1,879	5,066	

Reconciliation of
BOP to net income
after income taxes

Table 30.2

in USD millions, for the years ended December 31

	General Insurance		Global Life	
	2009	2008	2009	2008
Business operating profit	3,474	3,549	1,457	1,479
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	(753)	(1,172)	(441)	(411)
Net gain/(loss) on divestments of businesses	(2)	14	–	4
Restructuring provisions and other	(170)	(246)	(119)	423
Add back:				
Business operating profit attributable to non-controlling interests	(3)	24	35	38
Net income before shareholders' taxes	2,545	2,169	932	1,532
Income tax expense attributable to policyholders	–	–	387	(1,184)
Net income before income taxes	2,545	2,169	1,318	348
Income tax expense (attributable to policyholders and shareholders)				
Net income after taxes				

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	1,491	1,300	(737)	(901)	(108)	(471)	5,577	4,955
	(50)	(56)	(285)	(55)	8	(41)	(1,521)	(1,736)
	–	–	–	–	(3)	(1)	(5)	16
	(34)	2	110	99	6	58	(208)	336
	63	56	3	5	1	–	97	124
	1,470	1,302	(909)	(852)	(97)	(456)	3,941	3,695
	–	–	–	–	–	–	387	(1,184)
	1,470	1,302	(909)	(852)	(97)	(456)	4,328	2,511
							(1,274)	538
							3,054	3,050

Assets and liabilities by business segment

Table 30.3

in USD millions, as of December 31

	General Insurance		Global Life	
	2009	2008	2009	2008
Assets				
Total Group Investments	85,413	77,529	101,602	94,632
Cash and cash equivalents	9,940	9,703	4,385	5,130
Equity securities	4,743	5,966	5,348	4,821
Debt securities	63,594	53,578	62,883	56,256
Real estate held for investment	3,004	2,922	4,408	4,228
Mortgage loans	1,483	1,794	9,021	8,953
Other loans	2,623	3,340	15,432	15,131
Equity method accounted investments	25	26	125	113
Holding in related companies	–	201	–	–
Investments for unit-linked contracts	–	–	87,430	65,977
Total investments	85,413	77,529	189,032	160,609
Reinsurers' share of reserves for insurance contracts	12,957	12,749	2,160	2,008
Deposits made under assumed reinsurance contracts	66	68	3	–
Deferred policy acquisition costs	3,374	3,247	12,276	10,768
Deferred origination costs	–	–	856	770
Goodwill	1,029	895	442	395
Other intangible assets	1,419	1,303	4,000	3,925
Other assets ¹	15,339	16,116	6,730	6,835
Total assets (after cons. of investments in subsidiaries)	119,597	111,907	215,500	185,310
Liabilities				
Liabilities for investment contracts	–	–	46,374	36,230
Reserves for insurance contracts	79,900	77,468	136,256	120,706
Reserves for losses and loss adjustment expenses	63,476	61,396	35	18
Reserves for unearned premiums	15,191	14,874	302	226
Future life policyholders' benefits	98	95	74,760	72,782
Policyholders' contract deposits and other funds	1,135	1,102	14,691	12,611
Reserves for unit-linked contracts	–	–	46,468	35,069
Debt related to capital markets	–	–	–	–
Senior debt	3,462	3,031	265	694
Subordinated debt	2,054	2,189	1,019	412
Other liabilities	14,887	14,625	17,614	15,398
Total liabilities	100,302	97,313	201,529	173,440
Equity				
Common shareholders' equity				
Preferred securities				
Shareholders' equity				
Non-controlling interests				
Total equity				
Total liabilities and equity				

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

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	4,561	3,607	20,170	17,260	11,777	13,117	(27,581)	(25,810)	195,943	180,335
	734	714	8,226	8,267	2,616	2,853	(12,362)	(12,649)	13,540	14,016
	85	224	1,845	2,277	498	496	–	–	12,519	13,785
	1,302	696	2,920	1,478	6,384	6,644	(1,024)	(365)	136,059	118,287
	149	156	46	44	181	175	–	–	7,789	7,524
	–	–	–	–	–	–	(33)	(32)	10,472	10,715
	2,290	1,817	7,129	4,670	2,022	2,874	(14,162)	(12,764)	15,335	15,069
	–	–	3	3	76	75	–	–	229	217
	–	–	–	521	–	–	–	–	–	721
	–	–	–	–	11,737	12,226	–	–	99,167	78,203
	4,561	3,607	20,170	17,260	23,514	25,343	(27,581)	(25,810)	295,110	258,538
	211	209	(95)	–	4,688	5,477	(1,293)	(1,849)	18,627	18,595
	3,158	1,685	–	–	664	677	(29)	(32)	3,861	2,397
	529	307	–	–	2	2	–	–	16,181	14,323
	–	–	–	–	–	–	–	–	856	770
	821	382	5	5	–	–	–	–	2,297	1,677
	1,397	1,207	219	185	–	–	–	–	7,035	6,620
	1,547	1,479	1,738	1,895	1,171	1,708	(2,005)	(2,221)	24,521	25,810
	12,224	8,876	22,037	19,344	30,039	33,207	(30,908)	(29,913)	368,489	328,731
	–	–	–	–	–	–	(250)	(251)	46,124	35,979
	3,946	2,095	365	415	22,221	23,325	(1,276)	(1,831)	241,412	222,179
	1,793	835	49	44	3,531	4,147	(799)	(1,223)	68,086	65,218
	2,153	1,260	5	5	33	43	(7)	(10)	17,676	16,399
	–	–	311	366	3,890	3,573	(470)	(598)	78,589	76,218
	–	–	–	–	3,030	3,334	1	–	18,857	17,047
	–	–	–	–	11,736	12,228	–	–	58,204	47,297
	–	–	553	–	1,769	3,184	(2,298)	(1,106)	25	2,079
	–	–	23,368	21,259	1,082	1,054	(21,232)	(20,785)	6,945	5,253
	–	180	9,066	8,917	–	–	(3,113)	(2,853)	9,026	8,845
	1,801	1,575	1,625	3,040	2,381	2,553	(2,740)	(3,087)	35,569	34,105
	5,747	3,850	34,978	33,631	27,453	30,116	(30,908)	(29,913)	339,101	308,439
									27,343	18,100
									–	–
									27,343	18,100
									2,045	2,192
									29,388	20,292
									368,489	328,731

General Insurance –
Revenues by region

Table 30.4

in USD millions, for the years ended December 31

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

General Insurance –
Assets by region

Table 30.5

in USD millions, as of December 31

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

Global Life -
Revenues and assets
by region

Table 30.6

in USD millions, for the years ended
December 31

	Gross written premiums and policy fees from external customers		Property, equipment and intangible assets	
	2009	2008	2009	2008
Revenues				
Americas	1,257	1,087	297	244
United Kingdom	1,089	1,089	446	403
Germany	3,379	3,846	1,020	996
Switzerland	1,606	1,753	198	159
Ireland	385	353	5	6
Spain	3,523	1,635	2,859	2,742
Emerging Markets in Asia	221	189	11	14
Rest of the world	909	779	163	270
Total	12,369	10,731	4,998	4,835

Property, equipment and intangible assets for the Farmers segment amounted to USD 2,541 million and USD 1,811 million for the years ended December 31, 2009 and 2008, respectively.

31. Events after the balance sheet date

Subsequent to year end Zurich Insurance 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, Zurich Insurance Group changed its accounting policy for this closed U.S. life book of business by exercising the option in IFRS 4 to remeasure designated insurance liabilities using current financial and non-financial assumptions and bring the underlying insurance liabilities from this book of business to fair value. All financial assets related to these insurance liabilities, which were previously designated as available-for-sale, will be consequently designated at fair value through profit or loss. As a consequence of this change in accounting policy, prior year figures will be restated to ensure comparability. The major restatement impacts on the financial information 2009 will be a decrease in the equity as of January 1, 2009 by USD 1,241 million, an increase in the 2009 net income after tax of USD 747 million and a decrease in shareholders' equity as of December 31, 2009 of USD 374 million. Business Operating Profit will not be restated, as the business was not managed at a fair value basis in 2009 and it would not be a fair reflection of a sustainable operating profit.



Report of the Statutory Auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Insurance Company Ltd

Report of the statutory auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the Consolidated Financial Statements of Zurich Insurance Company 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 53 to 166 and 16 to 51), for the year ended December 31, 2009.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the Consolidated Financial Statements for the year ended December 31, 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

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

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

We recommend that the Consolidated Financial Statements submitted to you be approved.

PricewaterhouseCoopers AG

Patrick Shouvin
Audit expert
Auditor in charge

Ray Kunz
Audit expert

Zurich, March 30, 2010

Financial Statements – Statutory Accounts

Board of Directors and auditors as of December 31, 2009

Board of Directors and auditors			Expiration of current term of office
Zurich Insurance Company Ltd Board of Directors			
Manfred Gentz, Chairman	Berlin, Germany		2011
Philippe Pidoux, Vice Chairman	Lausanne, VD		2010
Susan Bies	Landrum, SC, USA		2010
Victor Chu	Hong Kong, China		2010
Thomas Escher	Uitikon, ZH		2012
Manfred Kindle	London, UK		2011
Armin Meyer	Erlenbach, ZH		2010
Donald Nicolaisen	Califon, NJ, USA		2012
Vernon Sankey	Farnham Common, UK		2012
Tommy de Swaan	Amsterdam, NL		2011
Rolf Watter	Thalwil, ZH		2010
Hans-Ulrich Schoch, Secretary to the Board of Directors			
Auditors			
PricewaterhouseCoopers AG			

Fritz Gerber is the Honorary Chairman of Zurich Insurance Company Ltd. In recognition of his leadership and services to the Company, he was appointed Honorary Chairman. Such designation does not confer board membership or any director duties or rights, nor does it entitle him to any directors' fees.

Financial overview of the year's business operations

Summary

The Zurich Insurance Company Ltd (ZIC or the Company) reported net income of CHF 1,790 million for the year ended December 31, 2009, compared with CHF 656 million for 2008.

With effect from January 1, 2009, ZIC sold all of its business conducted through its UK branch to the UK branch of Zurich Insurance plc (ZIP), a subsidiary company of ZIC incorporated in the Republic of Ireland (re-named from Zurich Insurance Ireland Limited effective January 1, 2009), by way of a portfolio transfer approved by the UK High Court on December 15, 2008.

On April 22, 2009, Zurich Group Holding, the parent company, increased ZIC's capital by CHF 1.2 billion by way of capital contribution to fund the acquisition of the U.S. Personal Auto Group, primarily comprising the direct platform of 21st Century.

Effective September 30, 2009, BG Investments Ltd was merged into ZIC, its parent company. All assets and liabilities of BG Investments Ltd were allocated to Zurich Insurance Company Ltd, Bermuda Branch. As a result, the former subsidiary of BG Investments Ltd, Cayley Aviation Ltd, is now directly held by ZIC. With the merger ZIC increased its ownership in CSMH Limited from 64.7 percent to 100 percent and its ownership in Zurich International (Bermuda) Ltd from 70.7 percent to 100 percent.

In December 2009, Zurich Group Holding, the former parent company of ZIC, was merged into Zurich Financial Services Ltd, the ultimate holding company of ZIC. As a result, Zurich Financial Services Ltd is now the immediate as well as the ultimate holding company of ZIC.

Key figures

in CHF millions, for the years ended December 31	2009	2008
Gross written premiums and policy fees	25,025	26,605
Net written premiums and policy fees	22,497	24,063
Net earned premiums and policy fees	21,512	22,869
Insurance benefits and losses, net of reinsurance	(15,663)	(17,172)
Underwriting and policy acquisition costs, net of reinsurance	(5,343)	(4,898)
Underwriting result, net ¹	(737)	(714)
Net investment income	2,318	3,967
Net income	1,790	656
Total investments	70,962	78,520
Total insurance reserves, net	38,314	43,729
Total shareholders' equity (after proposed appropriation of available earnings)	14,844	11,805

¹ Previous year figures are restated after the alignment of technical expenses to the Group's definition, see also basis of presentation.

Gross written premiums and policy fees

Gross written premiums and policy fees decreased by CHF 1.6 billion, or 6 percent, from CHF 26.6 billion to CHF 25 billion for the year ended December 31, 2009. The 6 percent decrease in Swiss franc terms and 4 percent decrease on a local currency basis, was mainly due to the fact that prior year premium included an assumed life insurance contract with Zurich Assurance Ltd, a UK life subsidiary of the Company. This contract reinsured of the majority of non-linked non-profit pension business of Zurich Assurance Ltd's defined contribution program (DCP) fund.

Gross written premiums and policy fees for direct business decreased by 42 percent to CHF 6.6 billion in 2009, compared with CHF 11.4 billion in 2008, however gross written premiums and policy fees for assumed business increased by CHF 3.2 billion, or 21 percent, from CHF 15.2 billion in 2008, to CHF 18.4 billion in 2009. The reduction in direct premium was driven by the transfer of the business of the Company's UK branch to ZIP and assumed premiums increased because of additional assumed business from Farmers Exchanges and ZIP.

Net income

Net income increased by CHF 1.1 billion, or 173 percent, from CHF 0.7 billion in 2008, to CHF 1.8 billion in 2009. The main driver for this increase was the transfer of the business of the Company's UK branch to ZIP which resulted in a net gain of CHF 994 million, as assets and liabilities were transferred at market values. A further reason for the increase was the change of the valuation method of equity securities described in note 2.

Underwriting and policy acquisition costs increased by CHF 445 million, or 9 percent, to CHF 5.3 billion. The main reason for this increase is an increase in reinsurance commissions as a result of the increased assumed business from Farmers Exchanges and the inclusion of the U.S. Personal Auto Group book of business in that treaty effective July, 1, 2009.

The combined ratio remained stable compared to 2008.

Income statements

Income statements	in CHF millions, for the years ended December 31	Notes	2009	2008
	Revenues			
	Gross written premiums and policy fees		25,025	26,605
	Less premiums ceded to reinsurers		(2,528)	(2,543)
	Net written premiums and policy fees		22,497	24,063
	Net change in reserves for unearned premiums		(985)	(1,194)
	Net earned premiums and policy fees		21,512	22,869
	Net investment income	4	2,318	3,967
	Net realized capital gains/(losses) on investments and write-downs	5	(294)	(1,612)
	Other income		2,007	1,121
	Total revenues		25,544	26,344
	Benefits, losses and expenses			
	Insurance benefits and losses, net of reinsurance	6	(15,663)	(17,172)
	Policyholder dividends and participation in profits, net of reinsurance		(97)	(78)
	Underwriting and policy acquisition costs, net of reinsurance		(5,343)	(4,898)
	Administrative and other operating expense		(1,034)	(1,433)
	Other expense		(807)	(1,158)
	Interest expense on debt		(687)	(907)
	Interest credited to policyholders and other interest		(78)	(280)
	Total benefits, losses and expenses		(23,708)	(25,925)
	Net income before taxes		1,836	419
	Taxes		(46)	237
	Net income		1,790	656

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

Balance sheets

Assets	in CHF millions, as of December 31	Notes	2009	2008
	Investments			
	Cash and cash equivalents		6,844	7,819
	Equity securities		1,951	2,506
	Debt securities		27,665	32,173
	Real estate		1,588	1,691
	Mortgage loans		1,415	1,773
	Policyholders' collateral and other loans		2,801	1,755
	Investments in subsidiaries and associates	7	27,967	29,950
	Derivative assets		731	852
	Total Investments		70,962	78,520
	Other assets			
	Deposits made under assumed reinsurance contracts		5,583	4,215
	Accrued assets		528	650
	Receivables from agents and outstanding premiums		980	1,807
	Receivables from insurance and reinsurance companies		1,831	1,567
	Other receivables		855	1,912
	Furniture and equipment	8	181	210
	Intangible assets	9	865	857
	Other assets		10	7
	Total other assets		10,832	11,226
	Total assets		81,795	89,746

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

Liabilities and
shareholders'
equity

in CHF millions, as of December 31	Notes	2009	2008
Short-term liabilities			
Deposits received under ceded reinsurance contracts		809	929
Amounts due to reinsurance and other insurance companies		1,251	1,447
Prepaid premiums and other creditors		1,789	1,628
Bank overdrafts		82	2,903
Accrued liabilities		671	1,198
Other liabilities		1,271	2,053
Total short-term liabilities		5,873	10,158
Long-term liabilities			
Provisions	10	662	203
Senior debt	11	11,127	13,720
Subordinated debt	11	10,974	10,132
Total long-term liabilities		22,763	24,055
Insurance reserves, net	12	38,314	43,729
Total liabilities		66,951	77,941
Shareholders' equity (before appropriation of available earnings)	13		
Share capital (fully paid)		825	825
Profit sharing certificates		p.m.	p.m.
General legal reserve		485	485
General free reserve		9,841	8,591
Retained earnings:			
<i>As of January 1</i>		<i>1,904</i>	<i>3,147</i>
<i>Dividend paid</i>		<i>–</i>	<i>(1,900)</i>
<i>Net income</i>		<i>1,790</i>	<i>656</i>
Retained earnings, as of December 31		3,693	1,904
Total shareholders' equity			
(before appropriation of available earnings)		14,844	11,805
Total liabilities and shareholders' equity		81,795	89,746

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

Notes to the financial statements

1. Basis of presentation

Zurich Insurance Company Ltd (ZIC) presents its financial statements in accordance with Swiss Company Law and relevant regulatory insurance law. The reporting currency for ZIC is the Swiss franc, rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add up to the rounded total in all cases.

The results of ZIC include the direct non-life business in Switzerland and its branches mainly located in Italy, Canada, Japan, UK and China as well as assumed reinsurance business from subsidiaries.

Effective December 31, 2009, ZIC changed its accounting policy for quoted equity securities. Quoted equity securities are now carried at the average stock exchange price of the month of December. This change results in a better alignment of the valuation principles with the Zurich Insurance Group's accounting principles. Unquoted equity securities are carried at a maximum of the acquisition cost with the deduction of the necessary value adjustments. In cases, where the value of the unquoted equity security improves compared to the impaired value, changes up to the original acquisition cost value are recognized in the income statement. Prior to this accounting policy change, impairments were not reversed in subsequent periods. This change in accounting principle resulted in a gain recognized in the income statement of CHF 363 million due to release of the difference between the market value and the lower cost value. Prior periods were not restated.

As part of the process to improve the presentation of ZIC's Financial Statements, we have made certain changes regarding the presentation of "Short-term investments" in order to better reflect the nature of the underlying investments.

"Short-term investments" in the amount of CHF 757 million as of December 31, 2008, are now presented, depending on their nature, under "Debt securities" (CHF 707 million) and "Policyholders' collateral and other loans" (CHF 50 million). This change in presentation is reflected in the balance sheet, note 4 and note 14.

Interest on reinsurance deposits previously presented under "Net Investment income" amounting to CHF 160 million is now presented under "Other income" for the year ended December 31, 2008. This change in presentation is reflected in the income statement and note 4.

The definition of the underwriting result was aligned to the definition used by the Zurich Insurance Group and now includes amortization and impairments on fixed and intangible assets. As consequence the net underwriting result for 2008 has been restated and amounts to CHF (714 million) compared with CHF (576 million) as previously stated. This change in presentation is reflected in the key figures.

2. Summary of significant accounting policies

a) Investments

Equity securities which are quoted on a stock exchange are carried at the average stock exchange price during the month of December. Unquoted equity securities are carried at a maximum of the acquisition cost with the deduction of the necessary value adjustments. In cases where the value of the unquoted equity security improves compared to the impaired value, changes up to the original acquisition cost value are recognized in the income statement.

Debt securities for branches located in Switzerland are carried at amortized cost using the effective interest rate method. For branches outside Switzerland, debt securities are valued at the lower of cost or market value, i.e. at acquisition cost or the market value if the latter is lower at the end of the financial year.

Real estate held for investment and for own use is carried at local statutory values that are valid in the country where the real estate is located.

Investments in subsidiaries and associates are held at acquisition cost less necessary impairments.

Mortgage and other loans are valued at a maximum of their nominal value under consideration of necessary impairments.

Derivative financial instruments held for economic hedging are carried at fair value. Other derivative financial instruments are valued at amortized cost in accordance with the Swiss supervisory law.

Realized capital gains/(losses) on investments occur when the sale price or redemption value is higher or lower than the carrying value at the time of sale. The size of these gains is determined by acquisition and sale prices and by the extent of write-downs on these investments since acquisition. Hence, some of the gains include the reversal of write-downs from previous years.

Write-downs and write-ups on investments include losses arising from a decrease in the fair value below cost or carrying value at the previous year end of equity securities and debt securities held by branches located outside Switzerland, and other than temporary impairments on debt securities held by branches located in Switzerland. Write-ups on investments are gains on quoted equity securities as a result of changes in the average stock exchange price during December and the lower book value and gains as a result of the reversal on impairments on unquoted equity securities up to the original acquisition cost value.

b) **Accrued assets**

This amount relates primarily to interest income, which is due but not yet received at year end, and other prepaid expenses.

c) **Deposits made under assumed reinsurance contracts**

The reinsurance deposits consist of funds deposited with primary insurers to guarantee contractual liabilities for assumed reinsurance.

d) **Insurance reserves**

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. In addition, equalization reserves are included where these are accepted by the regulator in the country where such reserves are held. 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. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed.

Reserves for unearned premiums represent the portion of the premiums written relating to the unexpired terms of coverage. In many insurance contracts, the insurance period for which the insurance company assumes a risk against a premium paid in advance does not correspond to the company's financial year. Premium received will not be fully earned in the financial year if the insurance period extends beyond year end. Thus, an amount equivalent to the unearned premium is set up as a reserve at the end of the financial year.

3. Exchange rates

The presentation currency for ZIC and its branches is the Swiss franc. Several ZIC branches operate outside Switzerland with different functional currencies. A functional currency is the currency of the primary economic environment in which the branch operates. Assets and liabilities of those branches with functional currencies other than the Swiss franc are translated into the presentation currency at end-of-period exchange rates, except for investments in subsidiaries and associates where historical exchange rates are used. Revenues and expenses are translated using the exchange rate at the date of the transaction or a weighted average rate. The resulting exchange differences are recorded in the income statements.

The table below summarizes the principal exchange rates that have been used for translation purposes. Net results on foreign currency transactions included in the income statements were a loss of CHF 554 million compared with a loss of CHF 405 million for the years ended December 31, 2009 and 2008, respectively.

Principal exchange rates	CHF per foreign currency unit, as of or for the years ended December 31	Balance sheets		Income statements	
		2009	2008	2009	2008
	Canadian dollar CAD	0.99	0.87	0.95	1.02
	Euro EUR	1.49	1.49	1.51	1.59
	British pound GBP	1.68	1.56	1.70	2.00
	US dollar USD	1.04	1.07	1.08	1.08

4. Net investment income

Net investment income	in CHF millions, for the years ended December 31	2009	2008
	Cash and cash equivalents	36	249
	Equity securities	34	90
	Debt securities	1,015	1,545
	Real estate	95	90
	Mortgage loans	41	49
	Policyholders' collateral and other loans	109	132
	Investments in subsidiaries and associates	1,009	1,835
	Other investments	(21)	(24)
	Total net investment income	2,318	3,967

Total net investment income decreased by CHF 1.6 billion, or 42 percent, from CHF 4 billion in 2008 to CHF 2.3 billion in 2009. Investment income on debt securities decreased by CHF 530 million or 34 percent from CHF 1.5 billion in 2008 to CHF 1.0 billion in 2009, mainly due to lower interest rates and a lower investment base in debt securities of CHF 4.5 billion as investments were transferred when the business of the UK branch was transferred to ZIP. Dividend income from subsidiaries and associates decreased by CHF 826 million from CHF 1.8 billion in 2008 to CHF 1.0 billion in 2009. The most significant dividends received in 2009 were from Farmers Group, Inc. with CHF 283 million and Zürich Beteiligungs-Aktiengesellschaft (Deutschland) with CHF 170 million.

5. Net realized capital gains/(losses) on investments, write-ups and write-downs

Net realized capital gains/(losses) on investments and write-downs	in CHF millions, for the years ended December 31	Realized gains		Realized losses		Write-ups and write-downs		Totals	
		2009	2008	2009	2008	2009	2008	2009	2008
Cash and cash equivalents		–	–	–	–	–	–	1	–
Equity securities		76	131	(35)	(60)	303	(585)	344	(514)
Debt securities		223	142	(176)	(148)	(14)	(1,142)	33	(1,149)
Real estate		25	13	(1)	(13)	(4)	(4)	21	(3)
Mortgage loans		–	–	–	(3)	1	5	1	2
Policyholders' collateral and other loans		2	–	(4)	–	–	–	(3)	–
Investments in subsidiaries and associates		–	38	(111)	(96)	(460)	–	(571)	(58)
Other investments		135	268	(253)	(158)	–	–	(118)	110
Total net realized capital gains/(losses) on investments, write-ups and write-downs		461	591	(580)	(477)	(174)	(1,726)	(294)	(1,612)

Realized capital gains decreased by 22 percent from CHF 591 million in 2008 to CHF 461 million in 2009, while realized capital losses increased by 22 percent from CHF 477 million in 2008 to CHF 580 million in 2009. Write-ups and write-downs decreased by CHF 1,552 million from CHF 1.7 billion in 2008 to CHF 0.2 billion in 2009. This is mainly due to write-downs on bonds and other fixed maturities which decreased by CHF 1,129 million from CHF 1.1 billion in 2008 to CHF 14 million in 2009. Equity securities were written up by CHF 303 million compared with a write-down of CHF 585 million in 2008. This is mainly due to the change in the valuation method mentioned in note 1. The write-downs in investments in subsidiaries include a pre-merger write-down on BG Investments Ltd in the amount of CHF 229 million, write-downs on ZG Investments Ltd of CHF 140 million and "Zürich" Finanz-Gesellschaft AG of CHF 101 million.

6. Insurance benefits and losses

Insurance benefits and losses	in CHF millions, for the years ended December 31	2009	2008
Loss payments, annuities and claims handling expenses, gross		(13,866)	(14,420)
Reinsurers' share		1,075	1,147
Loss payments, annuities and claims handling expenses, net		(12,791)	(13,273)
Change in reserves for losses and loss adjustment expenses, net		(2,872)	(3,899)
Total insurance benefits and losses, net of reinsurance		(15,663)	(17,172)

Total insurance benefits and losses decreased by CHF 1.5 billion from CHF 17.2 billion in 2008 to CHF 15.7 billion in 2009. The prior year was mainly driven by the assumed life reinsurance contract from Zurich Assurance Ltd that caused an increase in reserves for life benefits.

7. Investments in subsidiaries and associates

The table below shows the significant subsidiaries of ZIC with a carrying value of at least CHF 500 million and/or net income exceeding CHF 100 million. The carrying value of the listed subsidiaries and associates represents 87 percent of total investments in subsidiaries and associates of CHF 27,967 million.

Significant subsidiaries

as of December 31, 2009

as of December 31, 2009					Nominal value of common stock (in local currency millions)	
	Domicile	Segment ¹	Voting rights % ¹	Ownership interest %		
Bermuda						
CMSH Limited ²	Hamilton	Non-Core Businesses	100	100	USD	0.3
ZG Investments 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. ³	Hamilton	Other Operating Businesses	100	100	USD	0.01
Zurich International (Bermuda) Ltd. ²	Hamilton	Non-Core Businesses	100	100	USD	9.9
Germany						
Zürich Beteiligungs-Aktiengesellschaft (Deutschland)	Frankfurt/Main	General Insurance	82.6	82.6	EUR	152.9
Ireland						
Zurich Holding Ireland Limited	Dublin	Other Operating Businesses	100	100	EUR	0.1
Italy						
Zurich Investments Life S.p.A.	Milan	Global Life	100	100	EUR	74
Switzerland						
"Zurich" Investment Management AG ³	Zurich	Other Operating Businesses	20	20	CHF	10
Zurich Life Insurance Company Ltd ⁴	Zurich	Other Operating Businesses	100	100	CHF	60
United Kingdom						
Allied Zurich Holdings Limited	Jersey, Channel Islands	Other Operating Businesses	100	100	GBP	90.7
United States of America						
Farmers Group, Inc. ⁵	Reno, NV	Farmers	87.9	95.4	USD	0.001
Zurich Holding Company of America, Inc.	Wilmington, DE	Other Operating Businesses	99.9	99.9	USD	0.6

¹ The segments are defined in the notes to the Consolidated Financial Statements, note 30, Segment information. Voting rights may differ from the list of significant subsidiaries of Zurich Insurance Group on pages 170 to 172 as the interests shown above are only in respect of ZIC's direct holdings.

² Compared to prior year the ownership in CMSH Limited increased by 35.3 percentage points to 100 percent and the ownership in Zurich International (Bermuda) Ltd. increased by 29.3 percentage points to 100 percent as a result of the merger with B G Investments Ltd.

³ Compared to the prior year, Zurich Finance (Bermuda) Ltd. and "Zurich" Investment Management AG are new on the list of significant subsidiaries, whereas BG Investments Ltd., Dlegate Ltd., Eagle Star Insurance Company Limited and Zurich International Life Limited do not meet the criteria of significance anymore or have been merged.

⁴ The result of the operating activities is included in the Global Life segment of Zurich Insurance Group, whereas headquarter activities are part of Other Operating Businesses

⁵ The ownership percentages in Farmers Group, Inc. have been calculated based on the participation rights of ZIC in a situation of liquidation, dissolution or winding up of Farmers Group, Inc.

8. Furniture and equipment

Furniture and equipment	in CHF millions, as of December 31	2009	2008
	Furniture and equipment	492	471
	Accumulated amortization	(312)	(261)
	Total furniture and equipment	181	210

9. Intangible assets

Intangible assets	in CHF millions, as of December 31	2009	2008
	Brand names, patents, trademarks etc.	327	389
	Software	538	468
	Total intangible assets	865	857

Total intangible assets increased by CHF 8 million to CHF 865 million in 2009. The decrease in brand names, patents and trademarks relates to amortization charges in the year. The increase in software is mainly due to the capitalization of internal software development costs.

10. Provisions

These consist mainly of reserves to cover obligations relating to our administrative staff and sales staff and currency fluctuations. These reserves were created in view of expected, estimated or perceived expenditures or exposures. The increase of CHF 459 million in the provisions is mainly due to stock option plans which were transferred from and in relation to the merger of Zurich Group Holding.

11. Debt

a) Senior debt

Senior debt	in CHF millions, as of December 31	2009	2008
	Issuances to capital markets	3.875% CHF 1,000 million, due July 2011	1,000
	Issuances to capital markets under Euro Medium Term Note Programme	3.75% CHF 500 million, due September 2013	500
	Senior debt with ZFS Group	various	9,419
	Other	various	209
	Total senior debt	11,127	13,720

b) Subordinated debt

Subordinated debt	in CHF millions, as of December 31		
		2009	2008
Zurich Financial Services Ltd	5.41% CHF 4,000 million perpetual loan	4,000	4,000
Zurich Financial Services Ltd	6.30% CHF 6,132 million perpetual loan	6,132	–
Zurich Group Holding	6.30% CHF 6,132 million perpetual loan	–	6,132
Issuances to capital markets under Euro Medium Term Note Programme	7.5 % EUR 425 million subordinated notes, callable July 2019, due July 2039	629	–
Issuances to capital markets under Euro Medium Term Note Programme	12 % EUR 143 million fixed rate until July 15, 2014, 3 months Euribor + 10.33 % thereafter, perpetual, first call date July 15, 2014	213	–
Total subordinated debt		10,974	10,132

ZIC has a CHF 4.0 billion long-term and deeply subordinated loan from Zurich Financial Services Ltd. Its redemption is directly linked to ZIC's solvency I ratio. In 2008 Zurich Group Holding provided CHF 6.1 billion funding to ZIC to purchase 87.9% in voting rights of Farmers Group Inc. Following the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009, this loan has been transferred to Zurich Financial Services Ltd.

12. Insurance reserves gross and ceded

Insurance reserves	in CHF millions, as of December 31	2009	2008
	Gross		
	Reserves for losses and loss adjustment expenses	31,672	37,678
	Reserves for unearned premiums	5,449	6,160
	Future life policyholders' benefits	5,434	5,238
	Policyholders' contract deposits and other funds	1,034	1,037
	Reserve for premium refunds and other insurance reserves	479	456
	Total insurance reserves, gross	44,068	50,568
	Ceded		
	Reserves for losses and loss adjustment expenses	(4,932)	(6,124)
	Reserves for unearned premiums	(719)	(601)
	Future life policyholders' benefits	(95)	(105)
	Policyholders' contract deposits and other funds	(8)	(9)
	Reserve for premium refunds and other insurance reserves	–	(1)
	Total insurance reserves, ceded	(5,754)	(6,839)
	Net		
	Reserves for losses and loss adjustment expenses	26,740	31,554
	Reserves for unearned premiums	4,731	5,559
	Future life policyholders' benefits	5,339	5,133
	Policyholders' contract deposits and other funds	1,026	1,028
	Reserve for premium refunds and other insurance reserves	479	456
	Total insurance reserves, net	38,314	43,729

Total insurance reserves, net, decreased by 12 percent from CHF 43.7 billion in 2008 to CHF 38.3 billion in 2009. Ceded insurance reserves decreased by CHF 1.1 billion from CHF 6.8 billion in 2008 to CHF 5.8 billion in 2009. The most significant cause for the decrease in the loss reserves was the transfer of the business of ZIC's UK branch to ZIP. This decrease was partially offset by the increase of assumed business from Farmers Exchanges due to an increased participation in the All Lines Quota Share reinsurance agreement in 2009.

13. Share capital

Share capital and profit sharing certificates	number of shares, as of December 31	2009	2008
	Contingent and issued share capital, CHF 10 par value	86,000,000	86,000,000
	Issued share capital, CHF 10 par value	82,500,000	82,500,000
	Profit sharing certificates (Genussscheine) ¹	2	2

¹ These profit sharing certificates confer on their holder the right to receive a dividend if and to the extent the General Meeting decides. However, they do not confer on their holder any voting rights or rights associated thereto, any rights to subscribe for new shares, or any rights to liquidations proceeds.

a) Issued share capital

As of December 31, 2009 and 2008, ZIC had an issued share capital of CHF 825,000,000, consisting of 82,500,000 issued and fully paid registered shares of CHF 10 par value each.

b) Contingent share capital

At the General Meeting of Shareholders on June 11, 1997, contingent share capital of CHF 35,000,000, or 3,500,000 shares with a par value of CHF 10 each, was created, of which 2,500,000 shares can be issued in connection with the granting of conversion and/or option rights, and 1,000,000 shares can be issued for the purpose of employees' share ownership plans. None of the contingent shares have been issued as of December 31, 2009.

c) Profit sharing certificates

As of December 31, 2009 and 2008, ZIC had issued two profit sharing certificates with no par value.

d) Shareholders

As of December 31, 2009, following the merger of Zurich Group Holding into Zurich Financial Services Ltd in December 2009, 100 percent of the registered shares of Zurich Insurance Company Ltd were owned by Zurich Financial Services Ltd. As of December 31, 2008, 99.94 percent of registered shares were owned by Zurich Group Holding. The remaining 0.06 percent of registered shares were owned by Zurich Financial Services Ltd.

14. Assets and liabilities relating to companies within the Zurich Financial Services Group

Assets and liabilities relating to companies within the Zurich Financial Services Group	in CHF millions, as of December 31	2009	2008
	Assets¹		
	Cash and cash equivalents	3,786	4,584
	Debt securities	16	37
	Policyholders' collateral and other loans	2,769	1,731
	Other investments	61	231
	Deposits made under assumed reinsurance contracts	2,090	2,204
	Accrued assets	191	190
	Receivables from agents and outstanding premiums	4	–
	Receivables from insurance and reinsurance companies	1,119	934
	Other receivables	466	1,376
	Liabilities²		
	Deposits received under ceded reinsurance contracts	(13)	(42)
	Amounts due to reinsurance and other insurance companies	(796)	(1,133)
	Prepaid premiums and other creditors	(288)	(452)
	Accrued liabilities	(105)	(500)
	Other liabilities	(961)	(822)
	Senior debt	(9,419)	(12,110)
	Subordinated debt	(10,132)	(10,132)

¹ The amounts receivable from shareholders in 2009 are CHF 2.1 billion compared with CHF 1.8 billion in 2008

² The amounts due to shareholders in 2009 are CHF 10.8 billion compared with CHF 10.7 billion in 2008

15. Supplementary information

Supplementary information	in CHF millions, as of December 31	
	2009	2008
Guarantees, indemnity liabilities and pledges in favor of third parties ¹	14,445	8,115
Pledged assets in respect of securities lending agreements (at market value)	1,750	676
Leasing obligations not recorded on the balance sheet	36	189
Fire insurance value of real estate, furniture and equipment	2,507	2,528
Balances due to pension funds	23	100
Personnel expenses (included in underwriting and policy acquisition costs, administrative and expense lines of the income statements)	702	1,135

¹ Previous year figures are restated for guarantees for private equity engagements in the amount of CHF 88 million.

Guarantees increased by CHF 6.3 billion to CHF 14.4 billion in 2009 compared with CHF 8.1 billion in 2008, primarily due to guarantees which were transferred from and in relation to the merger of Zurich Group Holding. Pledged assets increased due to a higher amount of securities lending agreements compared to the prior year.

Furthermore, ZIC has provided unlimited guarantees in support of various subsidiaries belonging to the Zurich Insurance Group.

According to regulatory requirements, as of December 31, 19 percent and 32 percent of total investments are attributed to tied assets for 2009 and 2008 respectively.

In the second quarter 2009 Zurich Group Holding, the parent company, increased ZIC's capital by CHF 1.2 billion by way of capital contribution.

16. Net release of hidden reserves

The transfer of the business of ZIC's UK branch to ZIP and the change in the valuation method of equity securities as mentioned in note 1 resulted in a release of hidden reserves in the amount of CHF 1,325 million in 2009.

17. Information on the risk assessment process

Refer to the disclosures in the Risk Review on pages 16 to 51 of this Financial Report.

18. Subsequent events

With effect from January 1, 2010, ZIC transferred all of its business conducted through its Italian branch to the Italian branch of Zurich Insurance plc (ZIP), an indirect subsidiary company of ZIC incorporated in the Republic of Ireland, by way of a portfolio transfer. As of January 1, 2010, Zurich - Companhia de Seguros S.A. (Zurich Seguros), ZIC's subsidiary company in Portugal, was merged into ZIP and from that date all the business of Zurich Seguros has been conducted through, and all the assets and liabilities of Zurich Seguros have been held by that Portugal branch of ZIP.

Appropriation of available earnings as proposed by the Board of Directors

as of December 31	2009	2008
Dividend-paying registered shares		
Dividend-paying shares	82,500,000	82,500,000

in CHF, as of December 31	2009 (Proposed)	2008 (Approved)
Appropriation of available earnings as proposed by the Board of Directors		
Balance brought forward	1,903,503,273	1,247,174,209
Net income for the year	1,789,591,155	656,329,064
Retained earnings	3,693,094,428	1,903,503,273
Balance carried forward	3,693,094,428	1,903,503,273

The Board of Directors proposes to the shareholders at the Annual General Meeting to carry forward available earnings of CHF 3,693,094,428 as shown in the above table.

On behalf of the Board of Directors of Zurich Insurance Company Ltd

Manfred Gentz
Chairman

Zurich, March 30, 2010

Report of the Statutory Auditor

Report of the Statutory Auditor

To the General Meeting of Zurich Insurance Company Ltd, Zurich

As statutory auditor, we have audited the financial statements of Zurich Insurance Company Ltd, which comprise the income statement, balance sheet and notes (pages 177 to 188), for the year ended December 31, 2009.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 of the 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 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 financial statements for the year ended December 31, 2009 comply with Swiss law and the company's articles of incorporation.

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 financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings (page 189) complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Richard Burger

Raphael Kissling

Audit expert

Audit expert

Auditor in charge

Zurich, March 30, 2010

**AGGREGATED CONSOLIDATED FINANCIAL STATEMENTS OF
ZURICH INSURANCE GROUP FOR THE NINE MONTHS TO
30 SEPTEMBER 2010 AND AGGREGATED FINANCIAL STATEMENTS
OF THE ISSUER FOR THE NINE MONTHS TO 30 SEPTEMBER 2010**

ANNEX C

Zurich Insurance Group

Income Statements – Aggregated

in USD millions

	2010 (unaudited)	2009 (unaudited)		2009 (audited)
	as of September 30	as of December 31		as of December 31
		restated	restatements	published
Revenues				
Net earned premiums and policy fees	\$ 33'563	\$ 47'227	\$ 0	\$ 47'227
Farmers management fees & other related revenues	\$ 2'096	\$ 2'690	\$ 0	\$ 2'690
Net investment result on Group investments	\$ 6'597	\$ 5'792	\$ (153)	\$ 5'945
Net investment result on unit-linked investments	\$ 5'264	\$ 12'475	\$ 0	\$ 12'475
Net gain/(loss) on divestments of businesses	\$ 54	\$ (5)	\$ 0	\$ (5)
Other Income	\$ 1'028	\$ 1'822	\$ 0	\$ 1'822
Total revenues	\$ 48'602	\$ 70'002	\$ (153)	\$ 70'156
Benefits, losses and expenses				
Insurance benefits and losses, net of reinsurance	\$ 25'661	\$ 35'103	\$ (1'158)	\$ 36'261
Policyholder dividends & participation in profits, net of reinsurance	\$ 5'925	\$ 12'859	\$ 0	\$ 12'859
Underwriting and policy acquisition costs, net of reinsurance	\$ 6'433	\$ 8'254	\$ 0	\$ 8'254
Administrative and other operating expense	\$ 5'949	\$ 7'162	\$ (1)	\$ 7'162
Interest expense on debt	\$ 562	\$ 767	\$ 0	\$ 767
Interest credited to policyholder and other interest	\$ 377	\$ 525	\$ 0	\$ 525
Total benefits, losses and expenses	\$ 44'908	\$ 64'669	\$ (1'159)	\$ 65'828
Net income before income taxes	\$ 3'694	\$ 5'333	\$ 1'006	\$ 4'328
Income tax expense	\$ (1'018)	\$ (1'532)	\$ (258)	\$ (1'274)
Net income after taxes	\$ 2'676	\$ 3'801	\$ 747	\$ 3'054
Attributable to minority interests	\$ 68	\$ 68	\$ 0	\$ 68
Attributable to shareholders	\$ 2'609	\$ 3'733	\$ 747	\$ 2'985

Zurich Insurance Group

Balance Sheets – Aggregated

in USD millions

	09/30/10 (unaudited)	12/31/09 (unaudited)		12/31/09 (audited)
		restated	restatements	published
Assets				
Investments				
Total Group Investments	\$ 200'162	\$ 195'344	\$ (600)	\$ 195'943
Investments for unit-linked contracts	\$ 102'847	\$ 99'167	\$ 0	\$ 99'167
Total investments	\$ 303'009	\$ 294'510	\$ (600)	\$ 295'110
All other assets	\$ 71'579	\$ 74'267	\$ 888	\$ 73'379
Total assets	\$ 374'588	\$ 368'777	\$ 288	\$ 368'489
Liabilities				
Liabilities for investment contracts	\$ 47'022	\$ 46'124	\$ 0	\$ 46'124
Reserves for insurance contracts	\$ 244'774	\$ 242'094	\$ 682	\$ 241'412
Debt related to capital markets	\$ 400	\$ 25	\$ 0	\$ 25
Senior and subordinated debt	\$ 13'569	\$ 15'971	\$ 0	\$ 15'971
All other liabilities	\$ 36'215	\$ 35'549	\$ (20)	\$ 35'569
Total liabilities	\$ 341'980	\$ 339'764	\$ 662	\$ 339'101
Equity				
Shareholders' equity	\$ 31'035	\$ 26'969	\$ (374)	\$ 27'343
Non-controlling interests	\$ 1'573	\$ 2'045	\$ 0	\$ 2'045
Total equity	\$ 32'608	\$ 29'014	\$ (374)	\$ 29'388
Total liabilities and equity	\$ 374'588	\$ 368'777	\$ 288	\$ 368'489

Zurich Insurance Company Ltd

Income Statements – Aggregated

in CHF millions

	2010 (unaudited)	2009 (audited)
	as of September 30	as of December 31
		published
Revenues		
Net earned premiums and policy fees	15'658	21'512
Net investment income	3'857	2'318
Net realized capital gains/(losses) on investments and write-downs	745	-294
All other income	608	2'008
Total revenues	20'868	25'544
Benefits, losses and expenses		
Insurance benefits and losses, net of reinsurance	11'311	15'663
Policyholder dividends & participation in profits, net of reinsurance	24	97
Underwriting and policy acquisition costs, net of reinsurance	4'321	5'343
Administrative and other operating expense	547	1'034
All other expense	1'169	1'571
Total benefits, losses and expenses	17'372	23'708
Net income before income taxes	3'496	1'836
Income tax expense	-88	-46
Net income after taxes	3'408	1'790

Zurich Insurance Company Ltd

Balance sheets – Aggregated

in CHF millions

	09/30/10 (unaudited)	12/31/09 (audited) published
Assets		
Total investments	69'691	70'962
All other assets	9'305	10'833
Total assets	78'996	81'795
Liabilities		
Insurance reserves, net	36'600	38'314
Senior debt	10'483	11'127
Subordinated debt	8'588	10'974
All other liabilities	5'073	6'536
Total liabilities	60'744	66'951
Total equity	18'252	14'844
Total liabilities and equity	78'996	81'795

